The Incorporated Accountants' Journal.

THE OFFICIAL ORGAN OF

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Letters for the Editors to be forwarded to them, care of the Secretary, as above. Correspondence, copies of reports and accounts, &c., will be welcomed from the profession.

Contents.

Professional Notes.

The Central Association of Accountants, Limited, lodged petitions against a number of Municipal and public utility Bills which are now under the consideration of both Houses of Parliament. The Gloucester Corporation Bill came before a Select Committee of the House of Lords on March 22nd and 23rd, when the Central Association's Petition against Clause 59 of the Bill, which empowered the Corporation to appoint and pay one or more members of the Institute of Chartered Accountants or of the Society of Incorporated Accountants to act as auditor or auditors of the accounts of the Corporation, was dealt with.

The Institute and the Society appeared in support of the clause and against alterations, and the Lords' Committee eventually approved the clause in the Bill as drafted, and, on application by Counsel for the Gloucester Corporation, made an Order that the Central Association of Accountants should pay nine-tenths of the costs incurred by the Corporation by reason that the promoters of the Bill had been vexatiously subjected to expense through the opposition set up.

The pretensions of the Central Association of Accountants may be gathered from Clause 3 of their Petition on the Gloucester Bill, which was as follows:—"That your Petitioners were incorporated under the Companies Acts, 1862 to 1900, in the year 1905, the official designation of the Members being 'Associated Accountants' to distinguish them from the members of the Institute of Chartered Accountants the official designation of whose Members is 'Chartered Accountants' and from the Society of Incorporated Accountants and Auditors the official designation of whose Members is 'Incorporated Accountants' and that your Petitioners are a well recognised Association numbering amongst its Members gentlemen of high standing in the profession whose official designation has come to mean to that section of the public who has dealings with accountants a Member of an Association *which by its tests and examinations has conferred upon its Members the valuable privilege of a recognised status for ability and integrity.*" These words in italics are almost identical with those in the Judgment of Mr. Justice Warrington in 1907, when in the High Court he upheld the designation "Incorporated Accountant."

The result of the Petition of the Central Association of Accountants was well summed up by Sir Lynden Macassey, K.C., on behalf of the Corporation of Gloucester, in the following words:—"My Lord, the Corporation of Gloucester in this case have followed innumerable precedents, some 66 precedents exist for this particular clause, and I venture to say it was perfectly obvious, when one heard the cross-examination of the witnesses at the hands of the learned Counsel for the Institute and the Society, that the Central Association, by reason of the way it elects its members, by reason of the way it examines, or fails to examine, into their qualifications, is not, in any sense, as your Lordship has decided, a fit and proper society to be inserted in the clause."

We understand that the Central Association of Accountants, Limited, has now withdrawn its Petitions against the Audit Clauses of fourteen other Bills now before Parliament, including the Bills of the

Accrington, Dudley, Bridgwater and Warwick Corporations, and various public utility Bills of Gas, Water and Electric Power undertakings.

In the Committee stage on the Companies Bill some interesting matters have arisen. In several places the Bill provides a penalty clause reading somewhat as follows: "Every director, manager, secretary or other officer of the company who knowingly and wilfully authorises or permits the default shall be liable, &c." It was suggested that the words "or other officer" were dangerously vague, and that the word "auditors" should be substituted. The Lord Advocate stated that the object of the words "other officers" was to cover the cases of those companies which call their managers "presidents," or some other variation of the title. He undertook to reconsider the clause before the report stage with the view of making the phrase more definite.

An attempt was made to place private companies in the same position as public companies as regards the filing of the statutory report, but the motion was defeated by 23 votes to 4.

A great deal of discussion has taken place with regard to the proposal to abolish the identification of shares by the use of distinguishing numbers, and a new Clause will be moved in Committee by Mr. Dennis Herbert with the object of dispensing with the necessity for the use of distinguishing numbers. From the point of view of the saving of labour it would, of course, be a great advantage if the numbering of shares was dropped, but the Stock Exchange and some other authorities who are very closely concerned with this matter are against the proposal on account of the loopholes that would be opened for fraud. At the time of going to press the motion had not been reached, and the same remark applies to several notices dealing with the terms of the auditor's report and the method of setting out various items in the balance-sheet.

The Chancellor of the Exchequer, in replying to deputations from the Association of British Chambers of Commerce and the Federation of British Industries, intimated that in the present position of the Revenue he simply could not consider questions like reducing the duty on spirits or restoring the penny postage. He pointed out that, if allowance were made for the change in the value of money, letters were carried as cheaply now as before the war. On the subject of taxation of co-operative societies, Mr. Churchill said that although he had looked into the question with a desire to see whether there was any anomaly to be redressed he had not discovered anything to induce him to alter the view he had previously expressed. At the same time he admitted that he could see the precarious position of the private trader who was confronted with the power of massed capital which, because it was possessed by a large number of poor people, was not subject to the burdens which fell on a similar or smaller amount of capital in fewer hands. On the other hand, he said, if he were to start taxing trade discounts he would open a field into which the Inland Revenue had never attempted to enter. Referring to the change in the basis of assessment from the three years average to the one year, he said it had cost the Exchequer about £6,000,000 or £7,000,000 in the year 1927. This was a direct relief to those firms who had been most hardly hit by the general strike and the coal stoppage, which had cost the country £400,000,000 and caused a loss to the Exchequer of £80,000,000 spread over three or four years.

"I want to urge the necessity for that very important thing, a real census of production." These were the words used by Mr. Percy Wallis, the President of the Northampton Chamber of Commerce, in speaking to the Council of the Chamber at a luncheon last month. The question of statistics, he said, had been a matter of great interest to him throughout his life, and he considered that professional accountants had the welfare of the nation in their hands. If they realised their opportunity they might be in a much better position in the future than they were to-day. Statistics were of great importance to business, and many a man had a new light thrown on his affairs by the facts revealed by his auditors.

In legal circles there are some misgivings as to the effect of the Landlord and Tenant Act, 1927, on the position of mortgagees. In the *Law Times* of the 10th of last month, an interesting article was devoted to this subject, and some of the difficulties and uncertainties were pointed out. Hitherto, the position of a mortgagee in the event of default under the terms of the mortgage has been quite clear and definite, and it will not be surprising if this class of security should prove less attractive for a time until the working of the new Act has been put to the test. The question of compensation for improvements and goodwill is one of the matters which a mortgagee has to face if he goes into possession of the mortgaged property.

In bankruptcy proceedings the question of reputed ownership is continually presenting itself. Last month a case came before the Divisional Court (*Simeons & Co., Limited*, v. *Sharles*) relating to

certain goods lying in store at a wharf. The goods had been paid for by the purchasers who held delivery orders, but these orders had not been presented at the wharf when the Receiving Order was made. The wharfingers, acting on the instructions of the bankrupt's agent, refused delivery and legal proceedings ensued. In delivering judgment Mr. Justice Finlay said that the case turned upon interpretation of sect. 38 (*c*) of the Bankruptcy Act, 1914, which stated that the property of the bankrupt comprised "all goods being at the commencement of the bankruptcy in the possession, order or disposition of the bankrupt in his trade or business by the consent or permission of the true owner under such circumstances that he is the reputed owner thereof." The section must, however, be read with some attention to common sense and the essential point seemed to him to be this: Would the consequence of what had happened be that persons having dealings with the parties would draw the inference that the goods were the property of the bankrupt, with the result that the bankrupt would be enabled by reason of such reputed ownership to obtain false credit? In this case the goods were physically in the possession of the wharfingers and the delivery order, which was the document of title, was in the hands of the purchasers. In such circumstances he did not consider that the bankrupt could be regarded as the reputed owner of the goods. To constitute reputed ownership the true owner of the goods must have consented to a state of things from which he must (not might) have known, if he had considered the matter, that the inference of ownership by the bankrupt must arise.

Directors of public companies require to use great care in fixing the remuneration of one of their own number for undertaking special services. In the case of *Kerr* v. *Marine Products, Limited*, the chairman of the company was appointed "Overseas Director" at a salary of £1,800 per annum, for the purpose of enabling him to go to Australia on the company's business. The appointment was made by a service agreement approved, signed and sealed at a meeting of the board of directors. The Articles of the company affecting the case were as follows:—

> Article 69 of Table A: The remuneration of the directors shall from time to time be determined by the company in general meeting.
>
> Article 14 of the company's Articles: The directors from time to time and at any time may provide, through local boards, attorneys, or agencies, for the management of the affairs of the company abroad, and may appoint any persons to be members of such local boards or as attorneys or agents and may fix their remuneration. . . .
>
> Article 15 of the company's Articles: The directors from time to time and at any time may delegate to any managing director, local board, head manager, manager, attorney or agent any of the powers, authorities and discretions for the time being vested in the directors. . . .

The Court was satisfied as to the necessity of a representative being sent to Australia to carry on the company's business there, and there was no suggestion that Mr. Kerr did not perform his duties to the utmost of his ability, but on his return from Australia differences arose between him and the other directors, and the validity of the agreement was challenged.

On behalf of the plaintiff it was contended that the Articles gave the directors sufficient power to make the appointment, but Mr. Justice Finlay in delivering judgment said it was in his view impossible to suppose that it was ever contemplated that the directors should appoint themselves to remunerative positions of this character and vote themselves salaries for performing the work. The law on the subject appeared to him to be correctly stated by Lord Justice Lindley in the case of *George Newman and Co.*, in which he said: "Directors have no right to be paid for their services and cannot pay themselves or each other, or make presents to themselves out of the company's assets unless authorised so to do by the instrument which regulates the company or by the shareholders at a properly convened meeting." He could not see that the directors had authority by virtue of the Articles or in any other way to approve the service agreement, and, although the case seemed a hard one from the point of view of the plaintiff, he was obliged to hold that the agreement was not enforcible.

The case of *Ormond Investment Company, Limited*, v. *Betts*, relating to the assessment of foreign income on a three years average, under Rule 1 of Case V, has been taken to the House of Lords, with the result that the decision of the Court of Appeal has been reversed. When that decision was given we made the comment in our issue of March, 1927, that the judgment of the Master of the Rolls did not seem very convincing, and that we did not think any ordinary person reading the rule which was applicable to the case would imagine that it could be set aside in the way indicated by him. The rule in question reads as follows: "The tax in respect of income arising from stocks, shares or rents in any place outside the United Kingdom shall be computed on the full amount thereof on an average of the three preceding years as directed in Case I whether the income has been or will be received in the United Kingdom or not."

When the case first came before the Courts Mr. Justice Rowlatt decided that the three years average held good in all cases of assessment on foreign income arising from stocks, shares and rents, but the Crown contended that Rule 1 (2) of Cases I and II, Schedule D, was applicable to this class of income, which therefore, in the case of a new company, became assessable on the basis of the year of assessment. The Court of Appeal adopted this view and gave judgment against the company. The House of Lords has now reversed this decision and held that the three years average is applicable. The importance of the judgment lies in the fact that the company received a dividend from abroad in the first year of its existence, and did not receive anything more for some time afterwards. The Inland Revenue sought to assess the company for each of the first two income tax years on the basis of the first year's income, whereas it will now be assessable for the second year on one-third of that income only, and will apparently escape assessment altogether the first year. As the three years average has now been abolished cases of this character will not arise in respect of years subsequent to April, 1927, but there may still be a good many outstanding cases under the old law.

In a long article dealing with the financial and industrial outlook, the *Bankers' Magazine* in its March number discusses the speeches of the chairmen of the leading banks and sums up as follows:—"That bankers one and all should have spoken hopefully about trade at the meetings is natural enough, for to have done otherwise might have been to refuse stimulus where stimulus was greatly needed. It is, however, we think, impossible for anyone reading between the lines of the speeches delivered at the recent meetings to escape the conclusion that the speakers were far more impressed with the damage inflicted by the events of 1926, and the energies which will have to be put forth to retrieve the past, than they were with the present moderate trade improvement." This we think fairly represents the view held generally in commercial and financial circles.

Signature Per Pro.

The omission of the words "per pro" rarely operates to the advantage of a person signing documents during the liquidation of a company, but cases have arisen in which this has been the result. In *Kettle* v. *Dunster and Wakefield* (1927) 43 T.L.R., 770) the plaintiff, who had been appointed receiver on behalf of the debenture holders of a limited company, sued the defendants as acceptors of a number of bills of exchange. The bills were signed by "R. Kettle, Receiver, Ford Paper Works (1923) Limited," as drawer. They had been accepted in respect of goods supplied by the company to the defendants, and the plaintiff had stated that it must be "clearly understood that I am in no way accepting any liability or responsibility whatever in respect of the orders themselves." The defendants contended that these were surrounding circumstances from which the inference should be drawn that the plaintiff did not intend to make himself personally a party to the bills, and that, therefore, he was not entitled to sue upon them. It was held that the above were not surrounding circumstances from which the intention of the parties could be inferred, and that such intention must be gathered from the terms of the document alone, that the words "Receiver, Ford Paper Works (1923) Limited" were words of description only, and that the bills did not purport to have been drawn on behalf of the company. The plaintiff, therefore, was entitled to recover against the defendants upon the bills. In *Elliott* v. *Bax-Ironside* (1925) 2 K.B., 301) the omission of the words "per pro" resulted in a personal liability. A bill of exchange addressed to a limited company was accepted in the following form:—"Accepted payable at the W. Bank—A B and C D, Directors—Fashions Fair Exhibition, Limited." The drawer, when sending the bill to the company for acceptance, stated in his letter that as a condition of his doing the work for which the bill was drawn he should require it to be indorsed by the directors as well as accepted by the company. Accordingly, the same two directors signed the bill also on the back, "Fashions Fair Exhibition, Limited. A B and C D, directors," and one of them, when returning the accepted bill, drew attention in his letter to the fact that it was "duly indorsed by two directors of the company as requested by you." In an action against A B and C D as indorsers of the bill, it was held that they were personally liable, upon the ground that if the indorsement was to be treated as that of the company, it gave no greater validity to the bill than was already contained in the acceptance, and therefore under sect. 26 (2) of the Bills of Exchange Act, 1882, the construction that it was the personal indorsement of the defendants was to be adopted; that even if the indorsement stood by itself, as the defendants' signature did not in terms say that they were signing on behalf of the company, the addition to their names of the word "directors" must be treated as a word of description only, and not as excluding their liability, and that the Court were entitled to look at the surrounding circumstances

under which the bill was signed, including the letters which passed between the parties on the subject of the indorsement, from which it was to be inferred that the defendants by indorsing intended to guarantee the payment of the bill. In other cases the judgments have varied according to the particular circumstances. For instance, in *Chapman* v. *Smethurst* (1909) 1 K.B., 927) a promissory note was signed by the managing director of a company in the following form:—"Six months after demand I promise to pay to Mrs. M. Chapman the sum of £300 for value received together with 6 per cent. interest per annum. J. H. Smethurst's Laundry and Dye Works, Limited. J. H. Smethurst, Managing Director." In an action upon the note against the managing director it was held that the note was the note of the company, and that the defendant was not personally liable. But in *Landes* v. *Marcus and Davids* (1909) 25 T.L.R., 478) a cheque drawn in favour of the plaintiff was stamped near the top with the words "B. Marcus & Co., Limited," and was signed by the two defendants as follows:—"B. Marcus, Director, S. H. Davids, Director. —— Secretary," the space for the signature of the secretary being left blank. The name of the company did not appear anywhere except at the top of the cheque. It was held that the defendants were personally liable on the cheque. In *Dermatine Company* v. *Ashworth and Another* (1905) 21 T.L.R., 510) a bill of exchange was drawn upon a limited company in its proper name, and it was accepted by two directors for the company, the word "limited," however, being omitted in the acceptance owing to the fact that the rubber stamp, by which the words of acceptance were impressed on the bill, was longer than the part of the bill on which the acceptance was stamped, and therefore the word "limited" overlapped the paper. The company did not pay the bill. It was held that the name of the company was "mentioned" in the bill in accordance with the Companies Act, and that the two directors were not personally liable thereon.

In *Reid* v. *Rigby & Co.* (1894) 2 Q.B., 40) the defendants' manager, who had authority to draw on the defendants' banking account for the purposes of their business, but had no authority to overdraw the account, or to borrow money on behalf of the defendants, borrowed £20 from the plaintiff, stating that he wanted the money to pay the wages of the defendants' workmen, and gave as security a cheque signed in his own name by procuration for the defendants. The manager had overdrawn the defendants' banking account, and he borrowed the money for his own purposes, to replace money of the defendants which he had abstracted, but he paid the money into the defendants' account at their bank, and used it to pay the wages of the defendants' workmen. It was held that as, by virtue of sect. 25 of the Bills of Exchange Act, 1882, the plaintiff must be taken to have had notice that the agent had but a limited authority to sign, and the defendants could only be bound if the agent acted within the limits of his authority, the claim on the cheque must fail; but that as the money had found its way into the defendants' possession, and had been employed for their benefit, it was money received by them to the use of the plaintiff, and, although the defendants had not been aware that their manager had borrowed the money, the plaintiff was entitled to recover.

A per pro indorsement puts the banker on inquiry as to the authority of the person so indorsing, and disregard of this instruction constitutes negligence. The inquiry must include not only the authority to indorse but the authority to deal with the cheque in the manner proposed. The words "per pro" are not essential. Any cheque purporting to be indorsed in a representative capacity stands on the same footing. Where the indorsement is authorised the banker is not affected by the existence of unfulfilled conditions, and where the indorsement and application are authorised he is not liable for misapplication of the proceeds in the absence of any ground of suspicion. In *Morison* v. *Kemp* (1912) 29 T.L.R., 70) A, a manager in the service of the plaintiffs, who were insurance brokers, gave cheques drawn per pro the plaintiffs to the defendant in payment of his (A's) racing debts. A had authority to sign cheques per pro the plaintiffs for the purpose of the latter's business. It was held that the plaintiffs were entitled to recover the amount of the cheques from the defendant, inasmuch as the defendant must be taken to have had notice that the cheques were signed for purposes outside the plaintiffs' business and that A had only power to draw cheques confined to that business, and inasmuch as there was no evidence that the plaintiffs had held out A as having authority to draw the cheques in question. In *Crumplin* v. *London Joint Stock Bank* (1913) 109 L.T., 856) a series of cheques crossed "not negotiable" and drawn in favour of a person other than the customer were paid by the customer into his banking account with the defendants, the indorsements being forged. It was held that the fact that the cheques were crossed "not negotiable" and drawn in favour of a person other than the customer did not impose an obligation on the defendants to make inquiry so as to make them negligent in receiving the cheques and crediting their customer's account therewith, and that the fact that some of the cheques were signed "per pro" the plaintiffs merely operated as a notice that the drawer of the cheques had a limited right to sign them.

Residence in relation to Income Tax

THERE are many cases in which the income tax liability of an individual (as distinct from a company) depends upon whether or not he is considered to be resident in this country. The matter is decided, in the first place, by the Commissioners of Inland Revenue, and the taxpayer if dissatisfied with their finding has the usual right of appeal to the Courts upon a question of law. Until recently it was generally considered that the question whether a person was resident in this country was a question partly of law and partly of fact, and that in consequence the findings of the Commissioners were open to review by the Courts. It appears, however, from decisions given in the House of Lords during the past month in two cases involving questions of residence, that such is not the case, and that, provided there is evidence sufficient to justify the conclusion arrived at by the Commissioners, their decision, being a finding of fact, is conclusive.

The first of these cases was that of *Levene* v. *Commissioners of Inland Revenue*, where the appellant, a British subject who had carried on business in London, retired and decided to live abroad. He returned to this country regularly however, to visit his relatives, to take part in certain religious observances and to deal with his income tax affairs.

The second case was that of *Commissioners of Inland Revenue* v. *Lysaght*. The respondent, who was born in England of Irish parents, had been managing director of a company carrying on business in England, and had lived with his wife and family in this country. On his partial retirement, he sold his property in England and went with his wife and family to live in Ireland. He retained his connection with the company as an advisory director, in which capacity he returned to this country regularly to attend the monthly board meetings and also committee meetings, and for consultations with the other directors, his visits usually occupying about a week, during which time he stayed in hotels.

Both Mr. Levene and Mr. Lysaght claimed that they were:—

(1) Persons *not resident* in the United Kingdom and consequently entitled to relief from income tax on the interest or dividends on any securities of a foreign state or British possession which were payable in the United Kingdom under Schedule C, Rule 2 (*d*), and

(2) Persons *not ordinarily resident* in the United Kingdom and consequently entitled to exemption from income tax on War Loan interest under sect. 46 (1) of the Income Tax Act, 1918.

In both cases the Commissioners decided against the taxpayers and their decisions were upheld by Mr. Justice Rowlatt. The Court of Appeal, however, took the view that the question of residence was one of mixed law and fact, and while agreeing that Mr. Levene had been rightly held to be resident, decided the other case (Lord Justice Lawrence dissenting) in favour of Mr. Lysaght. They considered that a distinction must be drawn between those persons who came here willingly or for their own pleasure, or because it was their native country, and those whose visits were compulsory or necessitated by their business and who did not prolong their stay for other reasons.

On appeals being made to the House of Lords, both cases were decided in favour of the Inland Revenue Authorities. It was held that the interpretation of the word "resident," which is not defined in the Income Tax Acts, is such as an ordinary person would put upon it, that it was not a question of law, and that as there was evidence in both cases to support the findings of the Commissioners their decisions could not be interfered with.

In the course of his judgment Lord Sumner made some interesting observations with regard to the meaning of the word "resident." He pointed out that while it was true that it implied staying in a place for a certain length of time, there were also other points to be considered. For example, that if the question were one of occasional residence abroad under Rule 3 of the General Rules, the fact that each visit was short would not prevent a finding that the taxpayer occasionally resided abroad, though only occasionally. Again, that while the ownership of a house in this country available for residence though little used would be *primâ facie* evidence of a person's residence (*Cadwalader's* case), it did not follow that because he did not possess a house he was therefore not resident. It had already been decided that a person who always stayed in hotels during visits to this country might nevertheless be held to be resident here (*Reid* v. *Commissioners of Inland Revenue*). Merely to show that a person was resident elsewhere was not sufficient. Doubtless Mr. Lysaght, whose home, wife and family were in Ireland, was resident there, but a person could have more than one residence. Mr. Cadwalader was an American who resided in New York, where he practised as a barrister, but he was held to reside also in Scotland (*Cooper* v. *Cadwalader*).

Under General Rule 3 a British subject, whose ordinary residence has been in the United Kingdom, as in the two cases under review, is to be treated as still resident in this country even if he has gone abroad, provided he has left this country for the

purpose only of occasional residence abroad. As Lord Cave pointed out in *Levene's* case, the question is one of fact and degree to be decided on the circumstances of the case, and evidence which would be sufficient to render a British subject liable to be treated as resident might not be sufficient to justify a similar decision in the case of a foreigner.

In dealing with the further question of "ordinary residence" Lord Sumner considered that the word "ordinary" must be interpreted as the opposite of "extraordinary" rather than as meaning "usually" or "principally" or "most of the time," so that if a person came to this country regularly and as part of the normal routine of his life it could not be said that his visits were "extraordinary." Lord Clyde expressed a similar view in *Reid's* case when he contrasted "ordinarily" with "casually," and suggested that it meant "in the customary course of events." Although it was true that the word "ordinarily" involved an element of time, it did not appear to him that it was so important that "unless the appellant (Miss Reid) resided in the United Kingdom for at least six months and a day she could not be said to reside there in the year in question."

As regards the interpretation of "resident" and "ordinarily resident" the two cases just decided do little beyond confirming the opinions expressed in previous cases, but it seems clear that as most cases of this kind will be virtually settled when the Commissioners have given their decision it will be advisable to see that the cases are properly presented and that all relevant evidence is placed before the Commissioners.

There has been an increasing tendency recently for the Courts in complicated cases to hold that certain decisive features are questions of fact, and that accordingly the findings of the Commissioners are conclusive. There is a danger of this principle being carried too far as it deprives the taxpayer of the unfettered judgment of the Courts.

Society of Incorporated Accountants and Auditors.

Examinations.

The next examinations will be held on May 7th, 8th, 9th and 10th, 1928, in London, Manchester, Leeds, Cardiff, Glasgow, Dublin and Belfast.

The Preliminary examination on May 7th and 8th, 1928.
The Intermediate ,, ,, May 9th and 10th, 1928.
The Final ,, ,, May 8th, 9th and 10th, 1928.

Applications to sit for the examinations must be made on the appropriate forms before April 3rd, 1928.

Society of Incorporated Accountants and Auditors.

South African (East) Branch.

ANNUAL GENERAL MEETING.

The fifth Annual General Meeting of the South African (East) Branch was held at Johannesburg on Thursday, February 9th, 1928, when there was a fair attendance presided over by Mr. A. L. Palmer, the Chairman of the Branch.

Chairman's Address.

Mr. Palmer said: In moving the adoption of the report and accounts which have been submitted to you I wish briefly to refer to the financial position of this Branch and certain other matters which will, no doubt, be of interest to you. After allowing for all expenditure incurred during the year, the revenue and expenditure account revealed a surplus of £90 13s. 9d., and we were in the happy position at December 31st last of having a sum of £316 8s. 6d. on deposit with our bankers, which is a satisfactory position of affairs.

Examinations.

The bi-annual examinations were held during the year and these were very well attended, the type of candidate being up to the usual high standard: seventeen candidates sat for the Final and seven passed; twenty-two candidates sat for the Intermediate and ten passed; six candidates sat for the Preliminary and five passed. The percentage of passes for the year in all the examinations being 49 as against a percentage of 35 for the previous year, the increase in the percentage of passes being chiefly due to the success of the candidates in the Preliminary examination. These figures speak for themselves as regards the marking and quality of our examination papers.

During the year 26 sets of articles were entered into, as compared with last year's record of 25 sets.

Visit of Sir James Martin.

In October last we were fortunate in having a visit, though a brief one, from Sir James Martin, who, as you know, was the Secretary of our Society in London for some 33 years and later the President, and no doubt most of those here to-day were present at the general meeting held during his visit and heard Sir James' address to members. Under the circumstances I do not think it necessary to refer again to the various matters discussed at that meeting. I do, however, wish, on behalf of this Branch, to place on record the appreciation we all feel for the considerate and understanding manner in which Sir James met us and entered into our difficulties. As a result of Sir James' discussions with your Committee it is expected that our Council in London will in future be in much closer touch with the difficulties prevailing in professional matters in South Africa. To this end the Council in London have recently appointed a separate Committee to deal solely with South African matters.

Owing to the need for closer co-operation and unanimity in matters affecting our Society between the respective Branches of our Society in the Union, an Advisory Council was appointed by your London Council consisting of Incorporated Accountants practising in the Union. The method of appointment was, however, not satisfactory, and various other difficulties arose which made the successful operation of the Advisory Council impracticable. As a result, however, of

certain deliberations between your Committee and Sir James Martin it is believed that a satisfactory solution of the problem has been arrived at, and a draft scheme is now under consideration in London.

Chartered Accountants Designation Bill.

During the year the local societies have successfully passed through Parliament a Bill securing for their members throughout the Union and Rhodesia the designation of "Chartered Accountant South Africa." As you are aware, the Bill was only allowed by the opposition to pass on condition that certain compromises be allowed, which I do not like in the best interests of the profession here.

Owing to the inability of Natal members in the past to take a proper interest in the affairs of this Branch it was considered advisable to form the Natal members into a separate Branch as from January 1st last, and they will from that date be known as the South African (East) Branch. This Branch will in future be known as the South African (North) Branch, and will include members resident in Rhodesia. As a result of the secession of Natal members from this Branch our membership will be decreased by about 40, and our revenue for the ensuing year will necessarily be considerably reduced. It is hoped, however, with the steady progress which is being made by this Branch that this loss will be made up.

Deceased Members.

I regret to have to report that during the year now under review five of our esteemed members have passed away in the persons of Mr. H. T. B. Harrington, Mr. J. V. Blinkhorn, Mr. H. G. L. Panchaud, Mr. J. Wege, and Mr. A. C. Rayner. As a mark of respect to those departed members may I ask you to rise for one moment.

Secretary.

My Committee desire me to express on their behalf their appreciation of the zeal and unremitting attention to the work of this Branch of your Secretary, Mr. D. P. C. Blair. Gentlemen, that is all I wish to say, and I now beg formally to move the adoption of the report and accounts for the past year.

The report and accounts were adopted.

Mr. O. F. Brotherton was re-appointed auditor, and the retiring Committee were unanimously re-elected.

INCORPORATED ACCOUNTANTS' LODGE.

The Incorporated Accountants' Lodge held a "Guest Night" at the Restaurant Frascati, Oxford Street, London, W., on March 23rd. The Master of the Lodge, Mr. Joseph Robinson, presided at dinner over a company numbering upwards of 150, which included many ladies.

The toast list was commendably short. After the toast of "The King," proposed from the chair, Mr. Walter Holman called upon the company to honour "The Ladies," and replies were made by Lady Martin and Mrs. Joseph Robinson. Mr. Richard A. Witty submitted "The Visitors," and Mr. Archibald Crawford, K.C., responded. The health of the Chairman was cordially honoured, on the invitation of Mr. Henry Morgan.

A musical programme followed the dinner, and this was succeeded by an enjoyable dance. The proceedings throughout were most successful, and were the subject of congratulation from all present.

THE OVERSEAS TRADE BALANCE.

The following memorandum has been prepared by Mr. Arthur Michael Samuel, M.P., Financial Secretary to the Treasury, in response to the request of the Association of British Chambers of Commerce:—

The individual, in a nation of individuals, finds himself richer or poorer, at the end of the year, according as his income (receipts) exceeds, or falls short of, his expenditure (outgoings). How far is this true of a nation in a community of nations?

The income and expenditure of the individual find their analogy in the exports and imports of a nation. Exports are sold and the proceeds are receipts or income; imports have to be paid for, they correspond to the expenditure of an individual. Ordinary trade between different countries forms by far the largest part of international transactions, and, moreover, fairly precise statistics of the value of exports and imports are available. It is at this point, therefore, that inquiry must begin.

The total imports of Great Britain, including, as is customary for this purpose, imports of bullion as well as of merchandise, amounted in 1927 to £1,259 millions; similarly the exports amounted to £867½ millions. There was therefore an excess of imports over exports, corresponding, on our analogy, to an excess of this class of expenditure over this class of income, of £391½ millions. The fact is striking and suggests further inquiry.

If we examine the past, we shall find that an excess of imports over exports, sometimes larger, sometimes smaller, has been a feature of British overseas trade for nearly a century, Nevertheless the wealth of the nation has increased constantly and enormously during that period. If we extended our enquiry to other countries we should find that an excess of imports over exports is very common, much more common than an excess of exports over imports. A balance-sheet covering the trade of the whole world would show in aggregate a substantial excess of imports.

The explanation is that the value of imports is measured in a way which differs from that in which the value of exports is arrived at. In compiling trade statistics the prevailing custom is to take the value of an export as the value of the goods when put on board ship at the port of departure, or on waggon at frontier if despatched over a land frontier. On the other hand the value of an import is usually the cost, or value or price of the goods at the port or place of entry into the country. In an island like Great Britain this cost, or value, or price of imports includes freight, insurance, and other charges incurred in bringing the goods to our shores, in addition to the cost, or value, or price, in their country of origin. A large part of these charges is paid to British shipowners and British insurance agencies. It would, therefore, be obviously incorrect to suppose that the charges represent an unfavourable element in our national balance-sheet.

Our conception of exports as income, and imports as expenditure, is not wrong, but it is incomplete. We must include also, as additional income, the value of all the services such as shipping, insurance, &c., rendered by Great Britain to persons outside the boundaries of Great Britain, and we must include, as expenditure, the value of similar services rendered by other countries to Great Britain. Such services rendered by one nation to another are of the most varied description and it would be tedious even to enumerate them. Broadly speaking they are what are known as invisible exports. The importance of any particular item of these services varies with the nation concerned. For example, expenditure in Britain by overseas tourists is of minor importance in the

figures of our own balance-sheet. But if we had been considering the United States we should have found United States tourists' expenditure outside the United States was a considerable item of United States expenditure. If we had been considering Switzerland we should have found the expenditure in Switzerland by foreign visitors a great item of Swiss income.

The services rendered by Great Britain to other countries are usually grouped under three heads. The most important is shipping. Out net annual national shipping income in 1927, after deducting the value of shipping services rendered to us by overseas shipowners, is estimated at £140 millions. There is a second great group broadly described as commissions, which includes the value of various services rendered in this country for the benefit of persons resident abroad. Under this head fall brokers' commissions, merchants' commissions on overseas produce, insurance premiums (less claims paid), bankers' commissions, discount charges on overseas bills of exchange and payments made to us for other commercial services. The total is estimated at £63 millions for 1927. Finally, there is a group of miscellaneous receipts in respect of overseas tourists' expenditure here and many other items which do not fall under the previous head. These receipts, after deducting the corresponding outgoings, are estimated at £15 millions in 1927.

We ought in addition to take account of British Government expenditure made abroad. This includes our payments on the United States' war debt and the expenditure overseas of the Foreign Office, the Navy, the Army and the Air Force. But, as it happens, this British expenditure in 1927 was roughly balanced by the payments to us by overseas Governments, including Reparations, War Debt payments to us and the miscellaneous expenditure in this country by the Indian, Dominion, Colonial and Foreign Governments.

The value of the services rendered now by Great Britain thus exceeds the value of services rendered to Great Britain by £218 millions. For these services we are paid and they represent therefore income. The figure is not to be taken as more than a rough estimate, for in this part of our subject there are available no precise statistics like the import and export figures.

We have now reached the point at which the 1927 import and export figures show an excess of £391½ millions of expenditure over income, which however is reduced to £173½ millions if we take account also of services (£218 millions) rendered as enumerated above. Are there any other factors we have overlooked? A short consideration will show that we have not taken into account the most important factor of all. A substantial part of the wealth of the British people has been invested abroad in loans to India, the Dominions, Colonies and foreign countries, in their railway companies, oil companies, tea and rubber plantations, in their mines, in their trading concerns and in a hundred other ways. In respect of these investments we receive interest and dividends, and we can, and do, use these receipts to pay for imports without the necessity of ourselves exporting goods in exchange, as payment. The net annual income from overseas investments, after setting off the income we pay to persons overseas in respect of their investments in this country, is estimated for 1927 at £270 millions. This £270 millions when added to the £218 millions earned by "services" as explained above, makes a total of £488 millions (1927), and this total is called "Invisible Exports."

The final result of all these calculations is, therefore, subject always to the difficulty of framing accurate estimates of many of the items, an excess of £96½ millions of income over expenditure in the year 1927. In other words, visible exports (£867½ millions) plus invisible exports (£488 millions) amount to £1,355½ millions. We deduct from that total the value of imports, viz, £1,259 millions, and we find a balance in our favour of £96 millions due to us. It is called the balance of overseas trade.

It is often thought that the surplus of income over expenditure on overseas trade account is the measure of the amount available for investment by us overseas. But to make this account complete it would be necessary to include also our international transactions in existing securities, sinking fund payments received by us on existing loans and movements of short term balances. It is difficult to estimate these transactions even approximately. But it is known that they are on a very considerable scale, and that no close correspondence between the above described surplus on income account and the total amount of new loans made by us to overseas borrowers is to be expected.

Even an overseas trade balance on the credit side of the account is not a conclusive test of prosperity or stability. Imports may in many cases, especially in a new country, be capital goods, that is to say, goods of a reproductive kind, or goods to be consumed by those who are engaged in the production of capital goods, and thus increase the national wealth of the importing country. The account of such a nation resembles that of an individual who has built a house with his own hands. Such an individual may, despite Mr. Micawber's philosophy, find himself at the end of the year richer than at the beginning, even though his expenditure has exceeded his income. In such circumstances expenditure will have been developed or transformed into an asset representing, or capable of producing, an increase of wealth.

Nevertheless, in the case of an old established country such as ours, a favourable overseas trade balance on income account and an increase in the net total possession of capital assets situated abroad, *i.e.*, overseas investments, afford a strong indication of increasing national wealth.

The following figures show the Overseas Trade Balance for each of the years 1925, 1926, 1927, according to the estimates of the Board of Trade.

Balance of Income and Expenditure in the Transactions (other than Lending and Repayment of Capital) between the United Kingdom and all Other Countries.

	1925	1926	1927
	In Million £s.		
Excess of imports of merchandise and bullion	384	475	391½
Estimated excess of Government payments made overseas*	11	—	—
Total (debit items) (A)	395	475	391½
Estimated excess of Government receipts from overseas*	—	3	—
Estimated net national shipping income†	124	120	140
Estimated net receipts from short interest and commissions	60	60	63
Estimated net receipts from other sources	15	15	15
Estimated net income from overseas investments	250	270	270
Total (credit items) (B)	449	468	488
Estimated total credit (+) or debit (−).			
Balance on items specified above [(B) minus (A)]	+54	−7	+96½

* These include some items on loan accounts.
† Including disbursements by foreign ships in British ports.

COST-FINDING IN THE PRINTING INDUSTRY.

By Mr. W. HOWARD HAZELL,
Past President of the Federation of Master Printers.

Modern developments in industry have caused many changes in methods of production and distribution. One of the developments which is of considerable importance is the use of more accurate methods of cost finding, to which much attention has been directed in recent years. The gradual change from hand to machine production, and new inventions of various kinds which have rendered obsolete the plant which was efficient a few years ago, have made valueless all old records of cost. The enormous increase in the rates of wages and the cost of material during and immediately after the war, and the drop in wages and prices which followed the boom, have all made scientific cost-finding essential in every industry.

When wages and materials are stabilised over a long period the manufacturer may not think good cost-finding methods are necessary, as his profit and loss account will show whether the average of his costs and charges are satisfactory. But when fluctuations in wages, the price of materials, and other expenses occur, and changes in the methods of production are introduced, it is essential that costs should be accurately shown by some sound accounting method, in order that the manufacturer may be wisely guided in his decisions.

It is needless to stress this point with accountants, but unfortunately manufacturers in this country have not fully realised the many advantages of proper accounting for costing purposes, and much propaganda is still needed before every manufacturer knows the cost of all the processes carried on and all the commodities produced under his supervision.

The broad principles of costing are the same for all industries, but modifications of the details are necessary to suit each industry and also the size of the concern. Whatever the ultimate form of costing may be which is adopted, it is essential that the figures should enable the employer to know promptly the cost of every job and every process in sufficient detail to trace any losses or leakages that may occur, and to find out where economies can be made and improved methods of production introduced.

The printing industry has carried costing for that industry further than any other important trade in this country. About fourteen years ago a committee was appointed to prepare a costing system suitable for the printing trade, and after investigating various methods for over twelve months a complete system was prepared suitable for the particular needs of the industry, which was adopted at a mass meeting of master printers. The printing trade does not produce a uniform article, and each printing office manufactures a wide variety of printed matter. Each job varies from every other job. The work may be done by girl labour, or by men by hand, or on an elaborate machine costing £10,000 or £20,000, and the value of the jobs may vary from £1 or less to many thousands of pounds each. Practically nothing can be made in advance. Each piece of work must be produced to the special order of the customer.

Since that date the campaign in the printing industry has been carried on with energy and persistence. The costing committee selected men with a good knowledge of the many technicalities of the printing trade and trained them as cost accountants, to assist master printers in adopting the improved standardised methods. An annual conference on costing is held, local meetings of various kinds are attended by the cost accountants, and special classes for training clerks in the routine work of collecting the costs day by day are held in different parts of the country.

Costing in the printing trade is complicated owing to the various types of machines and the sub-division of the processes, and also by the rules and regulations of the twenty or more trade unions in the industry. The forms and dockets that are used by the workers have been accepted by the trade unions, and it is essential that when the system is installed the correct dockets should be used, so as to prevent friction with the unions.

This standard system is used throughout the country by a very large number of printers, the various processes have been sub-divided, and there is general agreement about the division of overhead expenses—what are chargeable and non-chargeable processes, &c.—and it is possible to compare the cost of production in different factories and in different parts of the country. The system has been widely adopted in this country, is used by His Majesty's Stationery Office, and in various parts of the Dominions.

The object of proper cost-finding is first to find the cost of every machine, process and job, and secondly to reduce the cost by investigating the information obtained, and it is probable the latter object is the more important of the two. The relative value of different types of machines, or different methods of production, can be accurately decided when proper costing records are obtained. These are the advantages of cost-finding which the Federation of Master Printers has always impressed upon its members. The costing committee is not concerned with charges for printing, and does not fix prices in any way. The object of the committee is to install the standard system in the works of the members of the Federation, and the price that can be obtained for the work must depend upon market rates and the efficiency and service which can be rendered by the printer.

One difficulty that is often encountered when the system is installed is that some printers, particularly small printers, do not have a proper system of book-keeping. It is then necessary for the cost accountant to find out from invoices and other records various details, such as plant values and depreciation, rent, rates, travelling and other expenses, in order that they may be allocated correctly to the different departments. This renders the work of the cost accountant more difficult, and annual revisions of costing figures cannot be satisfactorily carried out unless the books of account are properly kept and audited. The work of the cost accountant must be based on the figures the accountant has prepared, and the Federation always urges its members to employ an accountant so that the books may be properly audited. If they follow this advice the result will be beneficial to them and to the accountant they engage to do this work.

The accountants who are engaged by printers could render a service to their clients, and to the Federation, by recommending them to instal the Federation system of cost-finding. Printers are naturally influenced by the advice of their accountants, and it is to be hoped that this suggestion may be acted upon where no costing system is in use.

It is not necessary to engage the services of one of the cost accountants of the Federation, as some printers, after carefully studying the text book, have done the work themselves, or employed their own accountant to do so. The system is fully explained in a text book, which is published by the Federation of Master Printers, 7, Old Bailey, London, E.C., and the Costing Secretary will be glad to give further information to accountants of the services that can be rendered.

The movement for more efficient costing is not a campaign initiated and carried on only by the big printers. It is a

national effort by large and small printers to improve the conditions of the industry, and to increase the efficiency and the profits of all the master printers who are wise enough to adopt the methods which have proved so satisfactory in the last fourteen years. The system is suitable for, and has been adopted by, a very large number of small printers throughout the country, and small printers are represented on the Costing Committee which is carrying on this campaign for efficiency.

The need of the printing industry, as of all other industries in this country, is for higher efficiency and lower costs, and sound costing methods will assist this eminently desirable object. The Federation of Master Printers is carrying on this organisation in order to assist its members, and hopes that it may receive the support of all accountants throughout the country who are auditing the accounts of printers.

Changes and Removals.

Mr. Fred A. Fitton, Incorporated Accountant, who for the past 30 years has been in practice at Post Office Chambers, 26, Brown Street, Manchester, has admitted to partnership Mr. Henry Smith, Incorporated Accountant, who has been with him for the past nine years. The practice will be continued at the same address under the firm name of Fred A. Fitton & Co.

Mr. Thomas Froude, F.C.A., Incorporated Accountant, has removed his Berlin office to Behrenstrasse 24.

Mr. G. O. Harrison, Incorporated Accountant, has commenced public practice at 20, St. Ann's Square, Manchester.

Messrs. Thomas May & Co., Incorporated Accountants, have removed to Allen House, Newarke Street, Leicester.

Mr. N. Sarkar, Incorporated Accountant, has removed to 59, Bentinck Street, Calcutta.

Messrs. Slipper & Co., Incorporated Accountants, Bridgeway House, Hammersmith Bridge Road, London, W., have opened a branch office at 215, High Street, Hounslow.

Messrs. Stephenson, Smart & Co. announce that their London office has been removed from 78, Old Broad Street, to Dashwood House, 69, Old Broad Street, London, E.C.

Messrs. Fowler, Scroggie & Co. announce that they have transferred their practice to Messrs. Price, Waterhouse, Faller & Co., accountants, Reconquista 46, Buenos Aires. Pending completion of the transfer, and until further notice, Messrs. Fowler, Scroggie & Co. will continue in business at Reconquista 46. Messrs. Fowler, Scroggie & Co. are the oldest established firm of accountants in South America, having been founded over 36 years ago by the late Mr. Thomas B. D. Fowler, F.S.A.A., who took into partnership in the year 1892 the late Mr. V. G. G. Scroggie, F.S.A.A. The present senior partner, Mr. Thomas C. E. Fowler, F.S.A.A. (a son of the founder), is retiring on completion of the transfer, but Mr. David Templeton and Mr. C. J. M. Scallon, the remaining partners, and the staff are joining Messrs. Price, Waterhouse, Faller & Co.

Mr. Roland Burrows, M.A., LL.D., one of the Society's Legal Examiners, has been appointed Recorder of Cambridge in succession to Sir Travers Humphreys, who has resigned on appointment to the Bench. Mr. Burrows was formerly Recorder of Chichester.

Society of Incorporated Accountants and Auditors.

MEMBERSHIP.

The following additions to and promotions in the Membership of the Society have been completed since our last issue:—

ASSOCIATES TO FELLOWS.

Howell, Herbert Charles (McEwan, Wallace, Howell & Co.), 56, Hamilton Square, Birkenhead, Practising Accountant.

Marcroft, Herbert Moss, Borough Treasurer, Town Hall, Keighley.

Mudd, James Leonard, Norwich Union Chambers, Congreve Street, Birmingham, Practising Accountant.

ASSOCIATES.

Anderson, Walter, Clerk to McEwan, Wallace, Howell & Co., 56, Hamilton Square, Birkenhead.

Barker, Edgar John Harry, Clerk to Martin & Acock, 69, London Street, Norwich.

Carr, Edward, Clerk to J. H. Pontefract, 3, York Street, Manchester.

Crook, Samuel Kenneth, Clerk to A. B. Dawson, Town Hall, King Street, Wigan.

Crossgrove, John Wilfred, Clerk to Peat, Marwick, Mitchell and Co., Royal Exchange, Middlesbrough.

Favell, Arnold Rowland, Accountant-Auditor's Office, Town Hall, Sheffield.

Fleming, Henry Macpherson, Clerk to Peat, Marwick, Mitchell & Co., 11, Ironmonger Lane, London, E.C.2.

Forrest, Robert, Clerk to McLay, McAlister & McGibbon, 53, Bothwell Street, Glasgow.

Fox, Ernest Albert, Clerk to J. Hulbert Grove & Co., Swan House, 133/5, Oxford Street, London, W.1.

Heywood, Frederick, 14, St. James Street, Sheffield, Practising Accountant.

Ivison, John Robert, Clerk to Wood, Mair & Co., 5, Frederick Street, Sunderland.

Kalyanivala, Navoroji Rustamji, B.Com., Clerk to Sorab S. Engineer & Co., 45, Apollo Street, Fort, Bombay.

Mills, Douglas Frederick, Borough Accountant's Department, County Borough of Croydon, Town Hall, Croydon.

Occomore, Henry Robert, Clerk to Sewell, Hutchison & Co., Finsbury Pavement House, London, E.C.2.

Peck, Harold Douglas, Clerk to C. L. Andersson, Gibson and Co., 143, Longmarket Street, Cape Town, South Africa.

Poynter, Donald Armstrong, Clerk to E. P. Coleman, Jessel Chambers, 88/90, Chancery Lane, London, W.C.2.

Rose, Roy Kenneth Campbell, Clerk to B. de V. Hardcastle, Burton & Co., Coventry House, South Place, London, E.C.2.

Warrener, Charles William, Clerk to Hodgson, Harris & Co., Bank Chambers, Parliament Street, Hull.

Webb, William John, Clerk to Ling & Peach, Old Library House, Dean Park Road, Bournemouth.

Williams, Stanley Clifford, Clerk to Saunders, Horton & Co., The Cardiff Chambers, 29-31, St. Mary's Street, Cardiff.

Mr. A. H. Edwards, Incorporated Accountant, has been returned as a County Councillor for the Western Ward of Dorchester without opposition.

Mr. E. W. C. Whittaker, J.P., F.S.A.A., has been appointed Danish Vice-Consul at Southampton by the Danish Minister for Foreign Affairs, and the appointment has been recognised by the British Government.

The Second Instalment of the Simplification of the Income Tax.

A LECTURE delivered before the Birmingham and Midland Society of Incorporated Accountants by

MR. P. BARNES,
H.M. INSPECTOR OF TAXES.

The chair was occupied by Mr. ERNEST T. KERR, President of the Society.

Mr. BARNES said: The Second Instalment of Mr. Winston Churchill's Simplification of the Income Tax is contained in Part III of the Finance Act, 1927. In the House of Commons on April 11th, 1927, he said: "Our progress in these matters must be gradual; I am advancing step by step, and my object will not be attained until all arrangements are made to enable income tax payers liable to direct assessment in respect of sources of income arising in different parts of the country to receive a single demand and to make payments at a single place. This will be dealt with next year." The second instalment is, therefore, not the final instalment.

It will be better, I think, not to take the ten sections in Part III in the order in which they appear in the Act, but to take them in the order in which they appear to continue the process of simplification. It addition it will be necessary to consider five sections in Part II of the Finance Act, 1927, which modify the first instalment of simplification.

Before attempting to deal with the second instalment it will be well to remind you of the changes effected by the first instalment, which was contained in Part IV of the Finance Act, 1926. The important group of trades in No. III, Schedule A, consisting of coal mines, gasworks, &c., was transferred to Case 1, Schedule D. The miscellaneous lot of profits arising from land which were dealt with under No. II, Schedule A, *e.g.*, manorial rights, fines, sporting rights, &c., were transferred to Case 3, Schedule D. Putting to one side rents assessed under Schedule A as not being income directly assessed on the recipient, and profits from the occupation of land assessed under Schedule B as being rather special, this had the effect of grouping all direct assessments under Schedules D and E. The general basis for assessment under Schedule D was altered to the profits or income of the preceding year. Provision was made for carrying forward losses in trades against future assessments, and hardships during the transition period were provided for.

This left two different bases for direct assessments, viz, Schedule B, either profits of preceding year if election to be assessed under Schedule D made before June 5th, or conventional estimate of profits or profits for the year of assessment itself at the option of the taxpayer; Schedule D, profits or income of the year preceding the year of assessment; and Schedule E, remuneration for the year of assessment.

The first thing to notice in Part III, Finance Act, 1927, is that the basis of Schedule E assessments has been altered so as to make it the same as the basis of Schedule D assessments. In other words, the basis of Schedule E assessments, *i.e.*, of assessments in respect of income from employments, is to be altered from the actual remuneration of the year of assessment to the remuneration of the previous year. This change, like all other changes in Part III of the Finance Act, 1927, takes effect as from April 6th, 1928, so that it applies to the financial year 1928-29 and subsequent years. As in the case of Schedule D, which was dealt with in Part IV, Finance Act, 1926, an option is given as to when the change shall take place, and arrangements are made for dealing with new employments and employments that have ceased. In the case of Schedule E there are some exceptions to the new basis, viz, those cases in which a previous year basis is scarcely applicable. The most important exception is the weekly wage-earner class, which will continue to be assessed half-yearly on the current year basis. In these cases social conditions make it essential that the demand for tax should follow as quickly as possible on the receipt of wages. The other excepted classes are people who are temporary visitors to this country, *e.g*, Colonial officials on leave, foreign theatrical performers, &c. In the case of these intermittent visitors the current year is the only practicable basis for assessment.

It is probable that some employees will receive more remuneration for 1928-29 than for 1927-28, and they are not likely to complain of the change in the basis of assessment. It is also probable that some employees will receive less remuneration for 1928-29 than for 1927-28, and so they are to be given the opportunity of postponing the change until 1930-31.

In many cases, as a matter of practical convenience and by way of arrangement, assessments on fluctuating remuneration has been assessed on the preceding year basis. This basis received the approval of the Chancellor of the Exchequer in the House of Commons on May 29th, 1922. If an employee was assessed on the previous year basis for 1927-28 there is no change to be made, so there can be no question of postponing the change.

The arrangement is that anyone who was assessed on the actual remuneration for 1927-28, and who has a lesser remuneration for 1928-29, can claim to be assessed for 1928-29 and 1929-30 on the actual remuneration for 1928-29 and 1929-30. Written notice must be given to the Inspector not later than June 30th, 1929. At the risk of repetition I will put the matter in a different way. In cases in which the change of basis is postponed:—

(1) The assessments for 1927-28, 1928-29 and 1929-30 will all be on the basis of the actual remuneration for the year of assessment.

(2) The remuneration for 1928-29, must be less than the remuneration for 1927-28, so that the person assessed can claim and obtain a reduction in the assessment. But he need not do so if he would prefer to be assessed for 1928-29 on the remuneration for the preceding year, in which case the change of basis will take place for 1928-29 instead of for 1930-31.

Under Schedule E deductions are allowed in respect of expenses wholly, exclusively and necessarily incurred in the performance of official duties, and the amount to be allowed is determined by the amount of expenses in the period upon the remuneration of which the assessment is based.

In the case of a person starting or ceasing an employment, the basis is the basis already adopted for Cases 3, 4 and 5, Schedule D. In other words it is as follows:—

Year 1.—Income of Year 1.

Year 2.—Income of Year 2.

Year 3.—Income of Year 2. Option on part of taxpayer to have assessment reduced to income of year 3, in which case notice must be given to the Inspector within twelve months after the end of the year of assessment—in other words, before the end of year 4.

The exceptional case of a person first holding an employment on April 6th is not worth consideration.

Suppose the person assessed ceases to have the employment in year 10, the final years will be dealt with as follows:—

The last year—year 10. Income of year 10, whether this is more or less than the income of year 9.

The year before the last, income of preceding year, viz:—Year 8, with an option on the part of the Revenue to increase the assessment to the income of year 9, but the taxpayer has not the right to have the assessment for year 9 reduced to the income of year 9.

The only other provision of general importance as regards Schedule E is that where an excessive assessment is due to an error or mistake in a return, the taxpayer may claim repayment.

The changes in the basis of Schedule D assessments effected by Part IV, Finance Act, 1926, together with the change in the basis of Schedule E assessments effected by sect. 45, Finance Act, 1927, result in the basis of assessment, with comparatively few exceptions, being as follows:—

Schedule A. (Income from real property.)—Income of the year of assessment.

Schedule B. (Income from occupation of land.)—Profits of the year of assessment.

Schedule C. (Income from dividends, &c., from public revenue.)—Income of the year of assessment.

Schedules D and E. (Income from profits.)—Income or remuneration for the year preceding the year of assessment.

A few amendments have been introduced as regards Schedule D. Further careful consideration showed them to be necessary. These are the amendments contained in Part II of the Finance Act, 1927. Three of them are of permanent interest, and two of them relate to the change over period, viz, 1927-28 and 1928-29.

The first relates to the position as regards businesses which were commenced more than one year and less than three years before the year of assessment. This was left a little doubtful by sect. 29 (1), Finance Act, 1926, and so sect. 23 was inserted in the Finance Act, 1927, to ensure that the preceding year's basis applies to such cases also. This point is merely of technical interest.

The next amendment applies to Case 6, Schedule D. Prior to the Finance Act, 1927, liability under Case 6 had been dealt with on any basis the Commissioners chose to adopt. They had an unfettered discretion in the matter. If they chose as a basis the three years average they would have been able to make some allowance for losses. But for 1927-28 and subsequent years their discretion is limited so that the period they look at must not exceed a year, so no allowance for losses is possible. Sect. 27 puts profits assessable under Case 6 on much the same footing as profits assessable under Case 1 for this purpose. But there are these differences:—

(1) In the case of trades the loss is primarily to be carried forward against future assessments, whereas in what may be conveniently described as Case 6 sources the loss is primarily to be set against Case 6 assessments in the same year.

(2) In the case of trades losses can be carried forward and set against assessments on profits in the same trade only, whereas in Case 6 sources losses may be carried forward against any Case 6 assessments.

Thus a loss of, say, £100 in respect of guaranteeing a bank overdraft may be set against a profit of, say, £50 from letting a furnished house, and, in addition, the balance of the loss of £50 could be carried forward against assessments on other profits assessed Case 6, *e.g.*, letting furnished house or underwriting. The losses can be carried forward for six years. This amendment is made retrospective so as to include losses made in 1926-27, the reason being that the matter was raised in the debate on the Finance Bill, 1926, and the Chancellor of the Exchequer promised to look into it.

There is another amendment as regards carrying forward losses in Case 1, Schedule D. The carrying forward was limited very carefully. The loss could be carried forward by the person who made it and not by any other person, and this applied even though the change in ownership of a business were merely technical, *e.g.*, the sale by the sole proprietor of a business to a company in which he is, with the exception of a nominee, the sole shareholder. Provision is made for carrying forward losses in such cases. But this extension is also limited very carefully. There are two questions to consider:—

(1) The conditions under which losses are allowed to be carried forward.

(2) Against what assessments these losses can be allowed.

The conditions are, first, that the private owner of the business shall receive shares in the company either personally or through nominees as the sole or main consideration for the transfer of the business. The section extends, not only to the case in which the proprietors as partners in a private business take all the shares in the company to which the business is transferred, but also to the case in which additional capital is brought in by the issue of shares to other persons for cash, and to the case in which two or more private businesses are amalgamated to form a company, the proprietors of the private business taking shares as the sole or main consideration for the transfer of the business to the company. The second consideration is that throughout the whole of the year of assessment the former proprietor must hold the shares and the company must carry on the business.

The assessments against which the losses may be set are, first, remuneration and, second, dividends from the company. In setting the loss against assessments on remuneration first the taxpayer loses and the State gains, because of the restriction of earned income relief. In the case of dividends which are, of course, taxed before receipt the matter has to be dealt with by way of repayment and the claim must be made within a year after the end of the year of assessment to which the claim relates.

In the year in which the company is formed it is sufficient if the shares are held and the company carries on business from the date of formation of the company to the following April 5th.

The two sections dealing with the change over period are sect. 22 and sect. 28. Sect. 22 corrects an anomaly which arose in the case of persons who elect under sect. 29 (3) to be assessed for 1927-28 and 1928-29 on the old average basis. In certain circumstances it would have been possible to have obtained an allowance in respect of a loss for 1926 in the average for 1927-28 and 1928-29, and also to have carried forward that loss against future assessments. Sect. 22 remedies the matter by providing that where sect. 29 (3), Finance Act, 1926, is invoked by the taxpayer the provisions of sect. 33 shall not apply to any loss sustained in any year earlier than 1928-29 (or earlier than the trading year which would be taken as the basis of the assessment for 1929-30).

Sect. 28 deals with the hardship that might be caused in cases in which a business has been set up and commenced after April 6th, 1923. The nature of the hardship referred to can be made clear by means of an illustration. Suppose a business was started on July 1st, 1923, and that the figures as adjusted for income tax purposes were as follows:—

Year to June 30th, 1924.—Loss £1,000.
1925.—Loss £1,000.
1926.—Profit £500.

The assessment for 1927-28 would be £500. The benefit of sect. 29 (3), Finance Act, 1926, could not be claimed

because the assessment for 1926-27 would not have been upon an average of three years or more.

The losses for the two years to June 30th, 1924, and June 30th, 1925, cannot be carried forward. There would then be no allowance for the losses for the two years to June 30th, 1924, and June 30th, 1925, respectively.

The extent of the hardship is that the loss for the year to June 30th, 1924, cannot be brought into the average for 1927-28, and the loss for the year to June 30th, 1925, cannot be brought into the average for 1927-28 and 1928-29.

At the same time, assuming that the trading results of the period between July 1st, 1925, and April 5th, 1928, were so good that the net result of the whole period of trading up to April 5th, 1928, were a profit in excess of the 1927-28 assessment there would be no hardship. Equally as regards 1928-29, if the net result of the whole period of trading up to April 5th, 1929, were a profit in excess of the total of the assessments for 1927-28 and 1928-29 there would be no hardship.

Now let us illustrate the working of the section by reference to the easiest possible case, viz, the case in which the business started on April 6th, 1924, and accounts are made up to April 5th in each year. The maximum possible relief as regards 1927-28 is one-third of the loss in the year to April 5th, 1925, plus one-third of the loss in the year to April 5th, 1926; and as regards 1928-29, one-third of the loss for the year to April 5th, 1926. The relief is allowed by way of a deduction from the assessment, and is allowable so long as a loss is made either in the year to April 5th, 1925, or in the year to April 5th, 1926, or in both those years.

The amount of the relief is limited so that the minimum liability is, as regards 1927-28, the net result up to April 5th, 1928, but not deducting any loss for 1927-28, and as regards 1928-29, the net result up to April 5th, 1929, but not deducting any loss for 1927-28 or 1928-29. Losses for 1927-28 or 1928-29, may, of course, be the subject of claims under sect. 34, Income Tax Act, 1918, or sect. 33, Finance Act, 1926. I have purposely omitted any complications arising from claims under Rule 13, or sect. 34.

Having dealt with the new basis of assessment under Schedule E and the amendments as regards Schedule D, let us go on to consider the main objects of Part III of the Finance Act, 1927. The main objects are two in number, viz :—

(1) To combine income tax and super tax into one tax with the same basis of assessment, and

(2) To render it necessary in normal circumstances for an individual to make one return, and only one return of his income each year.

In order to make the new position quite clear it is necessary to keep the old position clearly in mind. The new position is, in fact, not so complicated as the legal language used to create it.

It will be simpler if we consider the old position as regards a definite year, say, 1923-24. For that year income tax was chargeable at a flat rate known as the standard rate. It was actually 4s. 6d. in the £. This standard rate was charged on the income of all persons or bodies of persons, thus including limited liability companies, clubs, trustees, &c. It may be mentioned that throughout the Income Tax Acts a distinction is made between persons and individuals. The term "persons," in accordance with sect. 19 of the Interpretation Act, 1889, includes any body of persons, corporate or incorporate, as well as individuals. The term "individual" is used to denote a single human being, though, of course, the income of a married woman living with her husband is deemed to be his income. An individual was entitled to certain reliefs, viz, to have earned income regarded as less than its actual amount, to bear no tax on the first £225 in the case of a married man and no tax on the first £135 in the case of a single man or woman, to have further income without payment of tax, if he had a child or children, &c., and when it did come to bearing tax, to bear it at half rate only on the first £225 on which he had to bear tax. These reliefs were allowed to individuals, irrespective of the amount of the total income. At the risk of stressing an obvious point, I repeat that the allowances were made to individuals only.

An individual who had a total income exceeding £2,000 for 1922-23 was required to pay super tax for 1923-24 on the amount in excess of £2,000. In reality this was an additional income tax for 1922-23, with this exception: that, in the event of death during 1923-24, the estate was required to bear a proportionate part only of the super tax payable.

The new position, which will be in force for 1928, will be that income tax will be charged for 1928-29 at a standard rate on persons or bodies of persons, and, so far as individuals are concerned, the income tax payable will consist of what was previously known as super tax plus ordinary income tax. I will explain the change over in a minute or two. But the reliefs—£135 to an unmarried individual, £225 to a married man, tax at half rate only on the first £225 to bear tax, &c.—are not to be allowed in calculating the deferred instalment of income tax to be known as sur tax. It was necessary, therefore, to provide that those reliefs should be in terms of duty and not in terms of deductions or allowances from income, so that, instead of saying that an individual with a total income of £5,000 is to have a personal allowance of £225, in which case the allowance would be made in computing the deferred instalment of income tax, it is necessary to say that the allowance is to be £225 at the standard rate, and so with the various other reliefs.

For the change over period the position will be that super tax will be payable for 1928-29 on January 1st, 1929, on the 1927-28 income, and sur tax will be payable for 1928-29 on January 1st, 1930, on the statutory income for 1928-29. At first sight it appears that there are two taxes for 1928-29 on the same income, viz, super tax and sur tax. It is true that both taxes are payable for 1928-29, but super tax for 1928-29 is really a tax for 1927-28, and so the double tax is a double tax in appearance only and not in reality. This will mean that an individual's income will bear sur tax for the exact number of years that he has had an income above the necessary limit, whereas at present, owing to the provision in the case of death, a year's, or a portion of a year's, liability may escape. Sur tax is to be assessed by the Special Commissioners.

This brings us to the question of returns. Under the old system, returns were called for by the assessor. You are, of course, acquainted with the division of income for income tax purposes into Schedules. The returns required were :—

(1) Schedule A (years of revaluation).—Return of rents by occupiers of property.—These forms were and still will be issued by the assessors and these will be the only return forms issued by the assessors. The whole of the remainder of the return forms will be issued by the Inspectors.

(2) Returns of profits and income assessable under Schedule D.

(3) Returns of remuneration assessable under Schedule E.

(4) Lists of employees, &c.

And in addition an individual who wished to claim any of the reliefs to which he was entitled had to make a statement of

total income based on the statutory income of the year of assessment. An individual liable to super tax was required to make a statement of total income for the preceding year. It is true that in practice the number of returns and statements was limited to some extent, but nevertheless the statutory requirements were as I have stated them, *e.g.*, a solicitor who was also, say, a director of a company and clerk to the Magistrates, was required to make a Schedule D return in addition to two Schedule E returns and a statement of total income so as to obtain the personal reliefs for income tax purposes, and, if his total income exceeded £2,000, a return for super tax purposes as well.

It was also a part of the system that super tax returns were not available to the Inspectors nor to the local Commissioners.

The position as regards returns by limited liability companies, firms, clubs, trust estates and returns of employees' remuneration, &c., is unaltered, except that the return forms will be issued by the Inspectors.

Individuals, however, will be required to make one return and one return only each year. This return, which will be a statement of profits and income of the preceding year, will consist of three parts:—

(1) Income liable to direct assessment under Schedules D and E.

(2) Income taxed by deduction—this includes income from property assessed under Schedule A.

(3) Charges on income.

Assume that a return has been made by an individual for 1928-29; it will contain the information which will be dealt with in the following ways:—

(1) Schedule D and E assessments will be made by reference to the amounts returned.

(2) Super tax liability for 1928-29 will be computed by adding the direct assessments under Schedules D and E for 1927-28 to the taxed income less charges for 1927-28 as shown on the return.

(3) Personal allowances for income tax can be checked and, if necessary, repayment made.

It will be necessary to add to the return a note in cases in which the taxpayer (or his wife) has ceased to possess any particular source (or part of any particular source) of income, or has acquired a new source (or an addition to an existing source) of income not taxed by deduction, as such changes may affect the amount of the liability.

These returns of total income will be available for all purposes.

There is just one more point that should be made clear; the return will be a return of actual profits or income for the preceding year, and not of what the person making the return considers the assessment should be. The return will thus be made in respect of what should be ascertained facts.

Finally the very difficult question relating to deduction of income tax from interest, dividends, &c., has to be dealt with. In the past the rate of tax deducted varied according to whether the payment was made out of profits and gains brought into charge or not. But nevertheless the dividends, &c., to be returned for super tax purposes are the amounts receivable, and the charges to be deducted are the amounts payable in the year. The method of approach has been altered. First the rate at which tax is to be deducted has been made definite and is based on one principle. It is that the rate to be deducted is the standard rate in force for the year in which the amount payable becomes due. Thus, if a dividend is payable on June 1st, 1928, the rate of tax to be deducted would be that in force for 1928-29, which may or may not be the 4s. rate in force for 1927-28, and th income is to be income of the year of assessment by reference to which the rate of deduction was determined. In the illustration it will be the income for 1928-29.

The same principle applies with regard to charges on income. There may be some question with regard to a dividend declared, say, on March 31st, 1928, and made payable on, say, April 10th, 1928. Such a dividend will presumably be income for 1928-29, *i.e.*, the year in which the company has to pay and the shareholders may expect to receive the dividend.

Briefly, the effect of the two instalments of simplification will be that the rents or annual values of ordinary properties only will be assessed under Schedule A; the general basis of assessment for trade profits, untaxed interest, foreign income and remuneration is the year preceding the year of assessment. Super tax and income tax will be combined in one tax, and individuals will normally be required to make one return and one return only each year.

In conclusion, I have to make it clear that this paper is in no sense official, and that it represents my personal opinions only. I should also like to express my thanks to you for paying me the compliment of inviting me to give you a paper and for listening so carefully.

District Societies of Incorporated Accountants.

SOUTH WALES AND MONMOUTHSHIRE.

(Cardiff and District Students' Section.)

Mr. W. I. Rodda, A.S.A.A., Vice-Chairman of the Students' Section, was the lecturer at a meeting held on March 8th, under the chairmanship of Mr. Owen I. Thomas, A.S.A.A.

Mr. Rodda, in dealing with "The Verification of Assets," gave a careful description of the duties of an auditor, subsequently dealing with the verification of specific assets, of securities, loans to directors and officers. Reference was made to the important *City Equitable* case and to the absence of definite rules by the Courts as to the verification of securities.

In the discussion, Mr. L. R. Williams referred to bearer securities and deeds of title, and the view was expressed that auditors should report to shareholders any instance of dividends being improperly declared.

The thanks of the meeting were extended to Mr. Rodda for his paper.

Mr. W. A. Stewart Jones (a member of the staff of the City Treasurer and Controller, Cardiff) received the congratulations of the Students' Section on his appointment as Cost Accountant to the Surrey County Council. In proposing the resolution, the Chairman referred to the valuable services rendered by him to the students, and extended to him their best wishes.

YORKSHIRE.

The tenth lecture of the session was given in Leeds on March 13th, when Professor J. Harry Jones, M.A. (author of "The Economics of Private Enterprise") gave an interesting paper on "Factors influencing the Scale of Modern Enterprise" to a good attendance of members, the chair being taken by Mr. Alfred Walton, F.S.A.A., F.C.A., Past President. Professor Jones dealt with the question of amalgamations: their effect compared with individual enterprise, and the changed condition of markets and trade at present compared with pre-war conditions; also the system of banking in Germany compared with English banking. A discussion took place at the close, and the meeting terminated with a hearty vote of thanks to the Lecturer.

Mr. K. J. Purohit, Incorporated Accountant, has been elected as one of the Commissioners for the Port of Calcutta to represent the Indian Chamber of Commerce (Calcutta).

Company Accounts and Balance Sheets

(With special reference to Clauses 33 and 34 of the Companies Bill, 1927).

A LECTURE delivered before a joint meeting of London members of the Society of Incorporated Accountants and Auditors and the Chartered Institute of Secretaries by

MR. ROBERT ASHWORTH, F.C.A.,
INCORPORATED ACCOUNTANT.

The chair was occupied by Brigadier-General ARTHUR MAXWELL, C.B., C.M.G., D.S.O., President of the Chartered Institute of Secretaries.

Mr. ASHWORTH said: The subject chosen for me to-night is that of "Company Profit and Loss Accounts and Balance-Sheets," and I am to make special reference to Clauses 33 and 34 of the amended Companies Bill, 1927, which propose to alter the law with regard to the construction and publication of those documents. I think you will agree that I have been given an impossible task, for there are so many points at issue that to deal adequately with them all would require three or four lectures. I shall, therefore, endeavour to confine myself to the main points with which we, as secretaries and accountants, are more intimately concerned, and leave the remainder to be brought out in the subsequent discussion.

Much has been written during the past two or three years on the proper presentment of company profit and loss accounts and balance-sheets. Economists, accountants, secretaries, directors and shareholders have all joined in the fray, and each looks at the subject from a different view point. The economist takes a social view of these documents. He is interested in ascertaining how the capital invested in the company is distributed and, therefore, is persistent in his call for a more minute analysis of the assets, liabilities and reserves. Sometimes, however, the economist in his enthusiasm forgets that the auditor is not responsible for the form of the published accounts, and directs his wrath upon us instead of upon the directors, who are responsible. Accountants, in their capacity as auditors, are keen in their desire to see that the balance-sheet, as far as possible, tells the true story, so that the shareholders are not misled by it. I say "as far as possible" because there may be temporary fluctuations in asset values, as distinct from depreciation, which it is not necessary to feature on the balance-sheet.

Human nature being what it is, the directors endeavour to put the best possible face on these documents, as it is by this means they give an account of their stewardship, and the possibility of revealing information which might be of use to the company's competitors is a constant terror to them when the documents are being prepared. The secretary, of course, takes his instructions from the directors, but I have found his influence of great value in supporting the auditor's contentions.

Shareholders, and the investing public generally, scan these documents in order to find out, if possible, the real earning capacity of, and security afforded by, the business in which they have invested or intend to invest their hard earned savings, and I believe the shareholder of to-day is inclined to take more than a dividend interest in these matters.

I am afraid we shall not have time to examine the subject from all these points of view to-night. I therefore propose to restrict myself to that of the shareholder, with whom both the secretary and accountant are closely concerned.

PRESENT ACCOUNTING POSITION.

It may not be unprofitable if I remind you of the existing accounting position of companies. Strange as it may seem, having regard to the democratic nature of limited liability companies, there is at present no statutory obligation placed upon a company registered under the Companies Acts, 1908 to 1917, to keep proper books and accounts, and where accounts are prepared there is no statutory requirement that they shall be submitted to the shareholders, or shall be in any particular form, or that they shall even be audited by the local butcher, let alone by a properly qualified accountant.

It is true that directors have the ordinary liability of agents to account to their principal, the company, for their dealings with its property and funds, but this, in my opinion, would only entail the rendering of a cash account to the company itself. It is equally true that the Companies Act, 1908, requires that every balance-sheet laid before the shareholders in general meeting shall be audited, but, as I have already stated, there is no statutory obligation upon the company or the directors to prepare or present such a balance-sheet.

There is, however, a statutory requirement under sect. 26 of that Act that a public company shall file with its annual list and summary a "statement in the form of a balance-sheet" made up to such date as is mentioned in the document itself, but, as you well know, one such statement may be prepared and filed year after year. The Registrar will, no doubt, refuse to file the same statement each year but, so far as I am aware, he has no power to enforce the filing of any other in its place. The new Companies Bill, by Clause 5, has endeavoured to rectify this last position by making it compulsory for the last audited balance-sheet of the company, together with a copy of the auditor's report thereon, to be filed under sect. 26.

It will, therefore, be realised that the obligation of a company to keep proper books and accounts, and render accounts and balance-sheets to shareholders, is at present entirely regulated by the company's own Articles of Association or by Table "A" in so far as the provisions of the latter in that respect are not excluded by the former. Of course, no company which is at all self-respecting would be without such regulations, but it has nevertheless been found necessary to remedy the position by legislation.

PROVISIONS OF BILL AS TO PROFIT AND LOSS ACCOUNT AND BALANCE SHEET.

This Clause 33 of the Companies Bill, 1927, proposes to do by providing:—

(1) That every company shall cause to be kept proper books of accounts with respect to—

(*a*) Money received and expended;
(*b*) Sales and purchases of goods;
(*c*) Assets and liabilities.

(2) That the books and accounts shall be kept at the registered office, or such other place as the directors may think fit, and be open to the inspection of the directors at all times.

(3) That the directors of every company, under penalty of six months' imprisonment or a fine not exceeding £200, shall within eighteen months of incorporation, and subsequently once at least in every year, lay before the company in general meeting a profit and loss account made up to a date not earlier than the date of the meeting by more than nine months or, in the case of a company carrying on a business or having interests abroad, by more than twelve months.

(4) That the directors shall cause to be made out in every year, and to be laid before the company in general meeting, a balance-sheet as at the date to which the profit and loss account is made up, and to such balance-sheet there must be attached a report by the directors with respect to the state of the company's affairs, the amount, if any, which they recommend should be paid by way of dividend and the amount, if any, they propose to carry to the reserve fund, general reserve, or reserve account shown specifically on the balance-sheet, or to a reserve fund, general reserve or reserve account to be shown specifically on a subsequent balance-sheet.

You will note that this last provision does not affect the creation of secret reserves, for they are not shown or to be shown specifically on the balance-sheet, but, as we shall see later, there is another provision under Clause 34 which partially affects the creation of secret reserves.

(5) That every person entitled to receive notices of general meetings shall be supplied with a copy of every balance-sheet, together with a copy of every document required by law to be annexed thereto, and a copy of the auditor's report, not less than seven days before the date of the meeting at which such balance-sheet is to be presented.

You will observe that it is only persons who are entitled to receive notice of general meetings to whom these documents need be sent, so that in some cases preference shareholders and in all cases debenture holders will not be so entitled. There is a growing practice, which I strongly deprecate, of depriving preference shareholders, except in the happening of certain events, of the right to attend and vote at general meetings. Such shareholders would not come within the provisions of this clause, but they will have the right, which is also extended to debenture holders, under Clause 35 of the Bill, to demand a copy of the balance-sheet and auditor's report on payment of sixpence for every hundred words. They will, however, have no right to demand copies of the profit and loss account and the directors' report.

Now it is one thing to decree that a profit and loss account and balance-sheet shall be prepared and published to shareholders, and an entirely different matter to ensure that such documents shall contain information of any value to the persons for whom they are intended. An attempt, which we will presently consider, has been made to provide for this in the case of the balance-sheet, but the Bill is silent as to the form or contents of the profit and loss account.

The Profit and Loss Account.

What is a profit and loss account? Judging from some of those statements which are at present published by various companies under this heading, it appears to be anything but the complete account of revenue and revenue expenditure, known to accountants as the profit and loss account. It is usually a mere statement containing an omnibus item on the debit side in which all the expenditure is aggregated, and a similar item on the credit side bringing into hotchpot the whole of the income of the concern, probably also including realised capital profits and totally failing to distinguish between profits of a trading and non-trading nature. I submit that if the profit and loss account to be laid before the shareholder in general meeting under the provisions of this Bill is of the latter kind it will be absolutely futile, for it will merely show total income and expenditure and the balance of profit or loss. The new Bill, however, preserves a discreet silence on this matter, and consequently leaves the term "profit and loss account" to be defined at some future date in the Courts.

We have been told that the demand made by the public for more informative accounts and balance-sheets is born of mere curiosity, and that to meet this demand would entail the publication of information of great value to the competitors of the company. To label this genuine desire of the shareholder for enlightenment as to the disposal of the capital he has invested is, of course, idle, and I have yet to meet the case in which it has been proved beyond doubt that the publication of a more detailed profit and loss account would seriously affect the company in relation to its competitors.

In America there is a free interchange of information of this character between competitors, and in every case it has proved beneficial to the various businesses concerned. We are not quite so advanced in this country, but great strides are being made in this direction. This is surely one of the natural results of the economic changes which have been taking place throughout the world in these post-war years under which competition has become more international than national in its nature. This is evidenced by the continual growth of the amalgamation of national competitors in order to meet the prevailing outside competition. There are very few businesses from which competition is feared that are not limited companies, so that if the publication of more detailed profit and loss accounts was made compulsory the majority of internal competitors would be on an equal footing. We may, therefore, safely assume that competitors will gain little from the publication of a more complete profit and loss account, and still less by the publication of more informative balance-sheets. In my opinion the truth is that this excuse is merely a cloak under which to hide information from shareholders. The published profit and loss account should at least distinguish clearly the income derived from trading from that obtained from other sources, and should give a reasonable analysis of the expenditure charged against such income. The shareholder would then be enabled to weigh up the earning capacity of the business in its true light, would see how the profit earned was being derived, and would probably be placed in possession of the reason for the violent fluctuations in profits experienced by some companies in recent years. So much for the profit and loss account.

The Balance Sheet.

Now let us turn to the balance-sheet. As you know, the balance-sheet prepared for the information of the management is usually a vastly different document from that prepared for submission to the shareholders, the difference between the two being due to the method of grouping the assets and liabilities in the balance-sheet for publication.. It will be well known to you that there have been many cases where this grouping has been carried to such a ridiculous extreme that it has resulted in a totally inaccurate story being told by the document. Assets and liabilities of an entirely dissimilar nature are bulked together, so that it is practically impossible to arrive at the true position of the company, despite the fact that the figures in total are no doubt correct.

Clause 34 of the new Bill makes an attempt to remedy this position by providing that every balance-sheet of a company shall:—

(1) Contain a summary of its share capital, its liabilities and its assets, giving such particulars of the liabilities and assets as are necessary to disclose their general nature and how the values of the fixed assets have been arrived at. You will observe that this is an extension of the provisions of sect. 26, applicable to "statements in the form of balance-sheets" filed by a public company with its annual list and summary.

(2) State under separate headings the amount of preliminary expenses not written off, and the amount of the goodwill.

(3) Where liabilities are secured, include a statement to that effect. It is not required, however, to specify the assets charged.

(4) State under separate headings shares held in subsidiary companies, and debts, of whatever nature, due to and from such companies.

It will be seen from these provisions that if, and when, the Bill becomes law, it will no longer be possible to jumble up assets in the balance-sheet in order to conceal a dead weight of intangible assets.

Capital expenditure and intangible assets of the nature of preliminary expenses, and goodwill, will have to be shown separately. Likewise the improper practice of bulking shares held in subsidiary companies with loans to or debts due from such companies, or the inclusion of the latter items under sundry debtors, will have to cease, for they must also be separately stated.

LOANS TO DIRECTORS.

In addition to these requirements, Clause 73 of the Bill also legislates that all loans made by the company, or under the guarantee of the company, to directors shall be shown separately in the balance-sheet. This will put an end to a pernicious practice of which you are all, no doubt, aware.

RULES FOR DRAWING UP THE BALANCE SHEET WHEN THE BILL BECOMES LAW.

I think you will agree that when these matters are placed upon the statute book, the work of the Company Law Amendment Committee will not have been in vain, despite the deficiency already mentioned with regard to the profit and loss account, and the further matter I shall refer to in a few moments, for the balance-sheet must then be drawn up under the following rules which will provide both protection and enlightenment to shareholders.

1.—*Assets.*

Fixed assets should never be bulked together with floating assets.

Non-depreciating assets, if any, should be separated from depreciating assets.

Intangible assets, such as goodwill or trade marks, should always be shown separately from other assets, and commission on placing shares and discount on debentures not written off must be separately stated under sect. 90 of the Act of 1908.

Trade debtors should be distinguished from cash debtors; that is to say, loans and amounts due from directors or other persons standing in fiduciary relationship toward the company should be separately stated.

Bills receivable should be distinguished from debtors, cash and investments.

Stock-in-trade should appear as a separate item, and not amalgamated with any other liquid asset.

Investments and cash should not be shown in one item. The nature of the investments should be indicated, and shares held in subsidiary companies should not appear under the headings of investments or sundry debtors, or be bulked with loans to such companies.

It should be clearly shown whether the assets are included at cost price or whether proper depreciation has been provided for.

2.—*Capital and Liabilities.*

The authorised or nominal capital and the issued capital should be clearly shown, distinguishing between the different classes of shares, and calls in arrear should not be shown under sundry debtors, but should be deducted from the issued capital.

Secured creditors, *e.g.*, mortgage debentures, should not be bulked with amounts due from unsecured creditors, *e.g.*, naked debentures, notes or trade creditors.

Cash creditors, *e.g.*, bank overdraft or cash loans, should be separately stated from trade creditors.

Bills payable should be distinguished from trade creditors.

Unclaimed dividends should not be included in the item of trade creditors.

Amounts owing to directors or other persons standing in fiduciary relationship towards the company should also be shown separately.

Any contingent liabilities, such as amounts remaining uncalled on the company's investments or holdings, should be shown as a note at the foot of the liabilities side of the balance-sheet.

Generally speaking, specific reserves should be shown as deductions from the assets affected, and general reserves should be shown under that heading on the liabilities side of the balance-sheet, and not bulked together with creditors or the balance of profit and loss account.

Sometimes, however, companies which require to increase the security of their business create what are termed "secret reserves" by writing down assets to a lower figure than their true value, or by over-stating the liabilities and not disclosing this in the balance-sheet at all. The extent to which such a practice may be allowed will depend upon whether such reserve has been created for a legitimate purpose in the interests of the company, or whether it has been created to enable directors to manipulate profits, in which latter case, or in any case if the reserve is excessive, in my opinion, a note of the reserve should be made upon the balance-sheet or referred to in the auditor's report; otherwise, such balance-sheet cannot be said to show the true and correct state of the company's affairs. In other cases than the foregoing, if the position as disclosed by the balance-sheet is less favourable than the true position, then apparently no disclosure of the reserve need be made.

We have already noted that Clause 34 of the new Bill provides that the balance-sheet, among other things, shall disclose the general nature of the liabilities, although we found that it need not disclose a reserve not specifically shown or to be shown on the face of the balance-sheet. Now you will be well aware of that contentious item appearing on the liabilities side of many company balance-sheets under the heading of "Sundry Creditors and Credit Balances," under which is usually included large secret reserves. Can it be said that this item shows clearly the general nature of the liability? In my opinion it cannot. If I am correct in this conclusion, I am afraid the useful method of creating secret reserves by the over-statement of liabilities will be destroyed when the Bill becomes operative. I can find no reason why the security of the business should not be strengthened by this method in proper cases.

VALUATION OF ASSETS.

A balance-sheet prepared on the lines I have suggested will enable the shareholder to see the position with regard to working capital, liquid assets, fixed assets and current liabilities.

The assets, of course, should be valued in the balance-sheet as those of a going-concern, and not at break-up values. I regret we shall not have time to consider to-night the basis of the valuation of the assets for balance-sheet purposes, particularly as I have recently read two learned dissertations upon the valuation of goodwill which show me that the true

nature of this particular asset is little understood even by some of the most prolific writers on the subject, but I must leave that for some other occasion. I should, however, like to direct your attention for the few remaining moments at my disposal to that other bone of contention which is frequently to be seen on the assets side of company balance-sheets, but which, in many cases, is very often much more in the nature of a liability than an asset. I mean the item labelled "shares in subsidiaries" or "investments in subsidiaries."

Holding Companies.

Exactly one year ago to-night I delivered a lecture in this hall on the subject of "Holding Companies and the Company Law Amendment Report," and I find on reading that lecture that, in spite of twelve months' reflection, I have nothing to add to or to take away from what I said on that occasion, but I am glad to note that many of the objections I then raised with reference to the Committee's recommendations on the subject of Holding Companies have been provided for in the Bill itself.

We have already seen that Clause 34 of the Bill makes provision for the asset shares in subsidiaries to be distinguished in the balance-sheet from loans to subsidiaries. In addition to this there are other provisions in the same clause which are meant to satisfy the persistent calls of shareholders for fuller information. How far this object is fulfilled we shall see in a moment.

Let us first of all look at the present position of the shareholder in the holding company, and in doing so let us remember that the nature of the business of holding companies differs widely.

You may have holding companies which are:—

(1) Solely investment companies as originally constituted, having no power to carry on any other business than that of an investment company; or,

(2) Solely investment companies by reason of having sold the whole of their trading business to one or more subsidiary companies for a share consideration; or,

(3) They may be trading companies having acquired a controlling interest in other concerns either by purchase of shares in those companies, or by selling only part of their business to other companies for a share consideration.

Now, generally speaking, at present the only information available to the shareholders of the holding company with regard to the capital invested in the subsidiaries is that shown on the asset side of what has become known as the company's "legal balance-sheet" under the heading of "shares in subsidiaries," which in itself is unintelligible and frequently misleading to both shareholders and creditors. This absence of intelligible information has led to persistent and surely not unreasonable demands on the part of shareholders for information supplemental to that contained in the "legal balance-sheet" in order that they may be enabled to see how the capital, the bulk of which may have been invested in subsidiary companies, has been disposed of, and to assess the value of the shares held by them in the holding company by having at their disposal information as to the total value of the net assets represented by their capital, how it is constituted, and its total earning capacity.

In his present position the shareholder is kept almost in the dark as to the activities and constitution of the subsidiary companies except in so far as the directors may be kind enough to afford him a little enlightenment in their annual report, or may be elicited from them at general meetings.

The Stock Exchange is generally as much in the dark as the shareholder as to the position of the subsidiaries; consequently, the time comes when the directors of the holding company, by reason of heavy undisclosed losses made by the subsidiaries, are probably forced to recognise the situation. This usually results in some drastic capital reduction scheme being put into operation which brings the market value of the holding company's shares toppling down, with consequent heavy loss to its shareholders, who have relied on the market price of the shares and the holding company's "legal balance-sheet." There have been a few recent cases of this with which you are no doubt familiar.

Clause 34 of the Companies Bill proposes to remedy this sorry position by the following provisions:—

> Where a company holds shares in a subsidiary company, or in two or more subsidiary companies, there shall be annexed to the balance-sheet of the holding company a statement signed by the persons by whom in pursuance of sect. 113 of the Principal Act the balance-sheet is signed, stating how the profits and losses of the subsidiary company, or where there are two or more subsidiary companies the aggregate profits and losses of those companies, have (so far as they concern the holding company) been dealt with in or for the purposes of the accounts of the holding company, and, in particular, how and to what extent—
>
> (1) Provision has been made for the losses of any subsidiary company either in the accounts of that company or of the holding company, or of both, and
>
> (2) Losses of any subsidiary company have been taken into account by the directors of the holding company in arriving at the profits and losses of that company as disclosed in its accounts. Provided that it shall not be necessary to specify in any such statement the actual amount of the profits or losses of any subsidiary company, or the actual amount of any part of any such profits or losses which has been dealt with in any particular manner.
>
> For the purpose of this sub-section the profits or losses of a subsidiary company mean the profits or losses shown in any accounts of the subsidiary company made up to a date within the period to which the accounts of the holding company relate, or, if there are no such accounts of the subsidiary company available at the time when the accounts of the holding company are made up, the profits or losses shown in the last previous accounts of the subsidiary company which became available within the period.
>
> If for any reason the directors of the holding company are unable to obtain such information as is necessary for the preparation of the statement aforesaid, the directors who sign the balance-sheet shall so report in writing, and their report shall be annexed to the balance-sheet in lieu of the statement.

Now you will have observed that these provisions place no obligation upon the directors of the holding company to disclose the amount of the aggregate profits and losses of the subsidiary companies, but merely to give a certificate as to how they have dealt with such profits and losses in the accounts of the holding company so that the shareholders in the holding company will still be without information either as to the nature of the net assets of the business in which their capital is invested or as to the total earning capacity of those businesses.

The Bill goes further than the recommendations of the Committee in that it also provides that the directors' certificate must state how losses of subsidiaries have been dealt with in the accounts of both the holding company and the subsidiaries, and must state to what extent such losses have been taken into account by the directors of the holding company in arriving at the profits of their company. To this extent there will be

an improvement in the position of the shareholder in the holding company, for he will have to be informed that such losses exist, although he need not be told the amount of those losses.

I regret it was not found possible to make it compulsory for the holding company to give full information to its shareholders by providing for the publication to them, in addition to the "legal balance-sheet" of the holding company, of a combined statement in the form of a balance-sheet, amalgamating the balance-sheets of all the subsidiary companies, distinguishing therein the capital held by the holding company from that held by others, for I am convinced that it is by this means alone that a complete explanation of the item "shares in subsidiaries" can be obtained.

The Companies Bill, 1927, has taken us a step nearer to more informative profit and loss accounts and balance-sheets, but I am afraid there is much work left for future Company Law Amendment Committees before we will realise our heart's desire in this respect. Nevertheless, great credit is due to the Committee for the hard work they have given in the public interest, and many valuable amendments to the existing law will be the result of that work when the Bill becomes effective, but, unfortunately, I have had to deal to-night with what is to me "the fly in the ointment."

Discussion.

Mr. R. F. SILVESTER, Incorporated Accountant: There is one question I should like to put to Mr. Ashworth. He has thrown among us this evening a bone of contention that still has plenty of meat on it with regard to secret reserves. I think he said that an auditor should be very careful how he dealt with any balance-sheet which contained excessive secret reserves. I should very much like to ask him if he would explain to us what he means by "excessive." I know that there is great difficulty in these cases, and many people besides the shareholders are interested in the question of excessive reserves.

Mr. GROUT, A.C.I.S.: I should like to ask Mr. Ashworth whether the wording of sect. 34, clause 2 (*b*), where it says "Any property to be acquired" applies only to the future, or whether holding companies which were formed, say, 30 years ago, probably holding shares in foreign companies which have passed through many troubles, are now to work backwards and try to ascertain how much of the money paid for their holdings was attributable to goodwill and how much was for other tangible property.

Mr. HOWELL: On the question of the relations between a parent company and an associated company, I do not gather that there is any provision in the new Bill for a transaction such as this: The subsidiary company sells property to the parent company and the parent company takes it into its capital account and the subsidiary company distributes its dividends to the parent concern. That has the effect of paying dividends out of capital. I know it is done, and I do not know that any provision is made in the Bill for it, nor do I see how any possible provision could be made for it. The auditors of the parent company have no access to the books of the subsidiary.

Mr. SCHIFF: The Lecturer said he would deal with these matters from the shareholder's point of view. Why should he bewail the fact that any provisions of the Bill should put a stop to the creation of excessive reserves, which are certainly not to the interest of present shareholders?

Miss THATCHER, A.C.I.S.: I should like the Lecturer to explain how the term "holding company" in the Bill will affect investments—companies floating subsidiaries and only holding shares as an investment as distinct from companies only holding controlling interests.

Mr. W. A. WESTACOTT-MANNATON: Does the Lecturer consider it better in published accounts to show the dividends received from investments as distinct from trading profits?

Mr. HARRIS: I should like to ask Mr. Ashworth if he does not think that the period of nine or twelve months for the presentation of accounts is too long? Also, with regard to the profit and loss account, a distinction is usually drawn between trading accounts and profit and loss accounts. I should like to ask if he considers that this clause would delete any obligations to publish an account of the sales and purchases in the trading account.

Mr. PARK: Mr. Ashworth said something as to the extent to which he thought the items, particularly on the assets side of a balance-sheet, should be separated. It is not quite clear to me whether that is his interpretation of the present wording of the Act—whether the Act will require that, or whether he believes the Courts will in future state that all these provisions are necessary. Sub-sect. (2) seems to suggest that separation under different headings (sub-sect. (1)) will still remain to a large extent to be decided according to the will of the directors.

Mr. W. ADDISON, Incorporated Accountant: Would the Lecturer kindly tell us how it is possible to prevent a thing like this happening in the accounts of a holding company where several subsidiaries are in existence. The subsidiary companies declare dividends but do not pay them. The holding company puts those dividends to reserve, in order to give shareholders the impression that they are doing very well. How could you prevent practices like that?

Mr. A. E. DOWNING, Incorporated Accountant: With regard to the provision as to holding companies disclosing the investments in their subsidiaries, it is possible to conceive a subsidiary company also holding a controlling interest in another subsidiary company. I should therefore like to ask the Lecturer his view as to whether clause 5 of sect. 34 covers this point. Unless the statement showed how the assets of the subsidiary company were made up, the holding in the further subsidiary company might be hidden, and that would defeat the purpose of this clause.

Mr. ASHWORTH: Mr. Silvester put a question with regard to secret reserves, or rather the creation of excessive secret reserves. Well, any man who has had any auditing experience at all is always guarded when he has to answer a question of this kind, and he always says that he must consider the special circumstances of each case. Now, Mr. Silvester asks—what is an excessive reserve? There again I come back to where I started and say it depends on the circumstances. It must depend on the circumstances. For instance, you may have a trading business which conducts, in addition to that trading business, a banking business with, say, half a million deposits. Well, I consider that a secret reserve of half a million would not be an excessive reserve, having regard to the fact that the business is also engaged in trading. I think a reserve of 2½ millions might be so. Inner or secret reserves may be necessary to meet the ordinary contingencies that crop up in business from time to time. When they get beyond what is necessary and prudent to meet the ordinary contingencies arising in business they might then be said to be excessive. Of course my opinion might not be the same as that of another accountant: he might consider that it was not excessive. Well, that is a position in which he would have to make up his mind; it is a question of the circumstances every time. Then I think Mr. Grout made some reference to clause 34, sub-sect. 2 (*b*) with regard to goodwill. Well, frankly, that section puzzles me, and I can only come to the conclusion that there is something there which I think is faulty draftsmanship, which will be altered when the Consolidating Act into which this Bill is to be incorporated comes along. First of all let us see what it says: "If it is shown as a separate item in or is otherwise ascertainable from the books of the company or from any contract for the sale or purchase of any property to be acquired by the company or from any documents in the possession of the company relating to the stamp duty payable in respect of any such contract or the conveyance of any such contract the present amount of goodwill as was shown or ascertained shall be shown under separate headings in the balance-sheet." It seems to me, that if goodwill is mentioned in the balance-sheet as an asset it must have its value separately stated. As you know, in the conveyance of property on the purchase of a business these things are sometimes bulked together in the purchase consideration, and when the directors allocate the purchase consideration to the assets they fix the values of the fixed assets and floating assets, and then might allocate the balance of the purchase money to an item labelled "purchase of business account and goodwill," or bulk goodwill with something else. I think it is cases such as these the Bill intends to

reach. I cannot see anything else in it apart from that. It cannot surely mean that a company shall dive back into its archives and unearth a deed of conveyance of 30 years old to find out upon what amount stamp duty was paid when the goodwill was conveyed. It seems to me that there is faulty draftsmanship, and I should like to know what our Chairman has to say about that when he speaks later. Mr. Howell mentioned something about the payment of dividends out of capital, but I am afraid I did not quite get his point.

Mr. HOWELL: The point was this: A parent company buys a machine from an associated company at an excessive price, and takes that into its capital account. The subsidiary company pays its dividend to the parent, and the parent company pays its dividends out of capital.

Mr. ASHWORTH: I agree with you that the present form in which this Bill is drawn up would not touch that, and I say you cannot touch it unless you come back to my suggestion of an amalgamated statement in the form of a balance-sheet consolidating the position of the subsidiaries as a whole, splitting up in the balance-sheet the amount of capital held by the holding company and distinguishing it from that held by outsiders. It is only by that means that you can see the true position. That is a case in point which illustrates what I was trying to get at. Miss Thatcher raised a question with regard to private companies. The answer is—that the provisions of the Bill with regard to the publication of the balance-sheet do not apply. If you have read your newspaper this week you will have seen that in the House of Commons one of the members was endeavouring to get it applied to private companies, but he was defeated. It merely applies to public companies in so far as the publication of the accounts is concerned. Now, with regard to an investment company which only holds shares in a subsidiary and does not carry on trade, I do not see that this Bill differentiates at all. I think the Bill does apply to such companies. I do not see anything in the Bill limiting its application to businesses carrying on a trade. It says: "Every balance-sheet of a company shall contain a summary of the share capital of the company . . . . where a company holds shares in a subsidiary company or in two or more subsidiary companies there shall be annexed to the balance-sheet of the holding company a statement." So it does appear to apply to a holding company which holds shares in any other company which give it a controlling interest. Mr. Mannaton mentioned the question of dividends from investments—should not these be shown separately? I think I made it quite clear in my lecture that in my opinion trading income should be shown distinctly from that arising from outside sources, and this of course would include dividends on investments. Mr. Harris asked me if I considered nine or twelve months too long for the preparation of accounts and their publication. Of course it is the publication we are dealing with here. In the majority of cases it would be too long, but in the case of some companies nine months is required in order to get full information and a complete audit of any subsidiary companies or any branches. But I quite agree that nine and twelve months errs on the wrong side; I would much rather have seen six and nine months mentioned. You asked about the publication of a trading account. The term "profit and loss account" will have to be defined in the Courts, because the Bill does not define it—either in the Courts or in the Consolidated Act which will be the outcome of this Bill. In my opinion the term profit and loss account does not include trading account. A profit and loss account to my mind is one which starts on the right hand side with gross profit and then states the income from outside sources, debiting on the opposite side all expenditure of an administrative nature. I am reminded that there might be a loss. Well, in the concerns that I have had anything to do with there has always been a profit. Mr. Harris instanced the case of building societies' accounts as an example where the publication of such accounts did not affect concerns competing against each other. I quite agree, but of course they are not trading concerns, although competition is just as keen with them as it is with trading concerns. That supports my contention that there would be very little difference with limited companies if they were all placed on the same footing and more details had to be given in their accounts—provided, of course, that they do not have to publish the trading account which has been referred to several times to-night. I was not referring to building societies; I merely mentioned companies under the Companies Acts, 1908-1917. Mr. Park raised a question as to whether the form of balance-sheet set out by me was required under the Bill. Well, I must confess that the requirements of the Bill have been tempered somewhat with my own desires, and I have gone a little further in those requirements than the Bill itself requires you to go. For instance, I think you may safely bulk together all fixed assets and all floating assets, but you must show your goodwill, your preliminary expenses and your commission on placing shares, discount on debentures, &c., separately. There is very little difference between the requirements of the Bill and what I have set out. Mr. Addison raised a very subtle point, and that was where a dividend was declared by the subsidiary company but was not paid, and the holding company had taken the dividend into its accounts and placed the amount to reserve so that it would not be distributed and not taken it into the profit and loss account, therefore hiding the position absolutely. There is nothing in the Bill to prevent them doing that, as far as I can see, because it says that the amount of any profits or losses shall not be stated; and it also goes further than that, because it says that they shall merely state how they have dealt with them. So that if they have not dealt with them, all they have to say is that they have not dealt with them. That is how it appears to me. Then Mr. Downing referred to those cases which I had not time to go into to-night, where subsidiary companies may be holding companies themselves. There is nothing in this Bill, as far as I can see, if those companies are public companies, behind which they can avoid making the same publication as any other public company. There again you cannot get at those companies unless you come back to my suggestion here—it is not dealt with in the Bill. I do not know that there is any question that I have missed, and I thank you very much.

The CHAIRMAN: In rising to ask you to accord a hearty vote of thanks to Mr. Ashworth, not only for giving us the benefit of his study of these clauses and how they affect the accounts, but also for having at very short notice attempted to answer the questions that have been put to him, I would like to make a few remarks myself. First of all I should like to thank the President of the Society which has joined us to-night for being present; also his Vice-President and other members of the Council. It is a great pleasure to me to find that we join together on a matter which is so important to the country at large and not only to our particular societies. I think it will be admitted that, as far as it is possible, it is not only to the interest of shareholders, but also to the interest of all parties connected with business and trade and commerce in this country, that as clear a balance-sheet should be presented to the public as possible. But I would like also to say this: that, as in military experience, it is the man behind the gun that counts, it is the real value behind the items that counts. The most important items on a balance-sheet are items which must of necessity be measured by the management of the company concerned, and however able, however keen, and however many sided an auditor may be—and they are all many-sided men—he cannot be held to be a manager of the varying companies whose accounts he is called upon to audit. There are such items as the value of stock-in-trade as ascertained by the management of the company, the value of investments where there is no market value, the value of sundry debtors where you do not know and cannot quite ascertain (where they are very numerous) whether the debtors are good or not. Those are matters that I think we all want to appreciate when studying a balance-sheet, and the auditor wants to appreciate it when he is auditing the accounts and signing the balance-sheet, and those people who read the balance-sheet also want to appreciate the same thing. No matter how able the accountant may be, or how careful he may be, he cannot necessarily disclose the real position of the company. That can only be known in its entirety to the management and the people concerned. There is one point that has been dealt with to-night as to which I should like to say a word. On my other side I am a banker, and secret reserves of course touch me closely. It has been said that secret reserves are things that want to be carefully handled. I think they do. In my experience as a banker, apart from my own particular banking side, I think there has been more disaster caused since the war by companies not making proper provision in their inner reserves but distributing all their

dividends. I am perfectly sure that shareholders are not the proper judges in this matter. They cannot know, and they are not in a position to know, what are the contingencies before trading and industrial companies, and it would be idle to say that in prosperous days we should not put by a nest egg to prepare for the other days which in all trading, and even in banking and finance, are sure to come. Therefore inner reserves to my mind are an essential corollary of any business or joint stock enterprise in this country. But at the same time there is an equitable division between the inner reserves which are for the protection of shareholders and inner reserves set aside for any ulterior object. I think my friend Mr. Ashworth used the word "excessive." Of course excessive is one of those terms which may mean anything or nothing. The circumstances of the inner reserves must depend on the circumstances of the company, the particular trade or business of the company or the manufacture of the company, and the only thing the auditor can do, with his knowledge of business, is to discuss with the officials of the company as to what is an equitable provision. In that way he no doubt does—and I hope always will—assist not only the company but the community at large in the preparation of the accounts to be submitted to the shareholders at the annual meeting.

The vote of thanks to Mr. Ashworth was carried with acclamation.

On the motion of Mr. KEENS, President of the Society of Incorporated Accountants and Auditors, a cordial vote of thanks to the Chairman was also carried with acclamation.

GLASGOW CHARTERED ACCOUNTANTS.

In their report for 1927 the Council state: The membership at January 1st, 1927, stood at 1,478. During the year the Institute lost ten members by death, viz: Mr. John Baird, Jun., Mr. Percy C. Baxter, Mr. James T. Cook, Mr. Neil S. MacLean, Mr. James McLaren, Mr. George Manson, Mr. Andrew Mitchell, Mr. Hew L. M. Morton, Mr. Alexander Sloan, and Mr. George Thomson, while the names of six members were removed from the roll. One hundred and fourteen were admitted in the course of the year, and at December 31st, there were 1,576 on the roll.

Mr. Alexander Sloan, who died on December 18th in his 85th year, was the senior member of the Institute, having been admitted in 1867. Mr. Sloan was an official of the Institute for the long period of 43 years—37 years as Secretary, three years as President, and three years as a member of Council. He was appointed Secretary in 1872, and held that office until, in 1909, he succeeded to the chair. Mr. Sloan, who was held in affectionate esteem by all who knew him, had the interests of the Institute deeply at heart, and throughout his long period of office served it faithfully and well.

BIRMINGHAM CHARTERED ACCOUNTANTS' STUDENTS' SOCIETY.

The annual dinner of the Birmingham Chartered Accountants' Students' Society was held at the Queen's Hotel, Birmingham, on March 2nd, and was presided over by Major P. H. Carter, F.C.A.

There was a large attendance, including Mr. R. H. March, F.C.A. (President, Institute of Chartered Accountants), Mr. Thomas Keens, F.S.A.A. (President, Society of Incorporated Accountants and Auditors), the Hon. George Colville (Secretary of the Institute), Commander Locker-Lampson, C.M.G., D.S.O., M.P., the Bishop of Birmingham, and many others.

The toast of "The Institute of Chartered Accountants" was proposed by Commander Locker-Lampson and responded to by Mr. March. "The Birmingham Chartered Accountants' Students' Society" was submitted by Mr. A. H. Cutforth, F.C.A., and replied to by Mr. W. L. Barrows (Hon. Secretary). The toast of "The Guests," proposed by the chairman of the Committee (Mr. E. C. Turner, A.C.A.), was responded to by the Bishop of Birmingham and Mr. Thomas Keens.

Goodwill.

A LECTURE delivered before the Incorporated Accountants' Students' Society of London by

MR. A. F. SAUNDERS, F.C.A.,
INCORPORATED ACCOUNTANT.

The chair was occupied by Mr. WM. STRACHAN, Incorporated Accountant.

Mr. SAUNDERS said: Goodwill was recognised as a form of property by the Law Courts at least as early as 1743, and one of the earliest legal definitions was that in *Cruttwell* v. *Lye* (1810) 17 Ves., 335), when Lord Eldon said, "Goodwill is nothing more than the probability that the old customers will resort to the old place."

A more comprehensive definition is that given by Lord MacNaghten in *Commissioners of Inland Revenue* v. *Muller*, (1901) A.C., 217): "Goodwill is the benefit and advantage of a good name, reputation and connection of a business. It is the attractive force which brings in custom. It is the one thing which distinguishes an old-established business from a new business at its first start. The goodwill of a business must emanate from a particular centre or source. However widely extended or diffused its influence may be, goodwill is worth nothing unless it has power of attraction sufficient to bring customers home to the source from which it emanates. Goodwill is composed of a variety of elements. It differs in its composition in different trades, and in different businesses in the same trade. One element may preponderate here and another element there. . . . . For my part, I think that if there is one attribute common to all cases of goodwill it is the attribute of locality, for goodwill has no independent existence. It cannot subsist by itself; it must be attached to a business. Destroy the business and the goodwill perishes with it, though elements remain which may be gathered up and be revived again."

Strictly, the term "goodwill" does not include patents, copyrights or trade marks, the rights in which are protected by Statutes. Very often these are combined with goodwill, one book value only being assigned to assets which, in fact, should be separately recorded.

Goodwill is found as an asset mostly in the accounts of limited companies, and most published balance-sheets of public companies include an acquired goodwill. The accounts of a sole trader, or a partnership generally treat goodwill as a secret reserve, no asset account being raised in respect thereof.

Usually if a business, or a share of a business, is for sale, the seller demands a price including goodwill, and will have his own ideas as to the value to be placed thereon. The object at which an investigating accountant should aim, on behalf of a purchaser, therefore, is to assess the goodwill fairly in order that his client shall not pay an excessive price for it.

There are many cases of a limited company, formed to acquire a particular business, whose accounts include an excessive figure for goodwill, it being usual in such a case to regard the excess of the purchase price over the net assets as properly chargeable to goodwill account.

The factors which an accountant has to bear in mind when endeavouring to place a value upon the goodwill of any business will vary in nearly every case. It may be said,

however, that the value will be affected by the following considerations:—

(1) The past record of profits.

(2) The capital required.

(3) How long the business has been established.

(4) Whether the vendors, or competent managers, will continue their services.

(5) The nature of the business, whether it deals with necessities, luxuries, partial monopolies, or patents.

(6) Whether the business is a manufacturing, wholesale, retail, or professional business.

(7) The tenure of the premises occupied, and in the case of leases, of what duration, and the terms upon which renewal can probably be obtained.

(8) The number of customers, the volume of business done with them, and the probabilities of customers doing substantial business continuing their custom or patronage.

(9) The methods, organisation and other matters affecting costing and administration.

With these points in mind, and the opportunity of examining the books for such information as may be required or may present itself for consideration, the accountant should obtain copies of certified accounts for the past three years, and tabulate these so that the various items in the trading and profit and loss accounts and balance-sheets are readily comparable.

Adjustments will be made on the net results of each year in respect of extraordinary expenditure not likely to recur, capital expenditure charged to revenue, excessive or insufficient depreciation, income tax, extraordinary receipts credited to revenue, and income from assets not taken over; and in consequence of these adjustments, a revised profit figure will be obtained. The profits so ascertained form a basis for determining the estimated maintainable profit, that is to say, the profit which it is expected will be maintained for a reasonable time in the future.

The next step is to ascertain the average capital employed in the business over the three years, according to the balance-sheets, remembering that if certain assets, such as investments, are not taken over these must be eliminated from the calculations. From the three years' adjusted profits previously arrived at, interest at a commercial rate on the average capital employed, if not already charged, will be deducted.

It must also be seen whether the vendor gave his services without charge, and if so, a further deduction must be made for a reasonable rate of remuneration to him in respect of the services rendered. In the case of a limited company it must be seen that the payments for the services of the directors and managers are reasonable. If they are excessive, and new arrangements can be made eventually, any excess must be added to the adjusted profits so arrived at, while if they are insufficient a further deduction must be made to allow for proper remuneration for services rendered.

The result of these calculations will give the figure of super profit on the three years under review, for the purpose of estimating the goodwill value. Generally speaking, this is calculated on the average results of the years examined, but it may be that the profits have shown a distinct upward trend, in which case a variation from the average may be justified.

From this point the facts ascertained become the basis for negotiation, the usual method being to agree upon a given number of years purchase of the determined profits.

The number of years' purchase of these profits will depend on the nature of the business. In the case of a monopoly, or quasi-monopoly, or of an established business which is not open to considerable competition, the number of years purchase may be anything up to seven years, *e.g.*, newspapers or banks. With a well established sound wholesale business, four years may not be unreasonable. In the case of a manufacturing business, and in most trading businesses, two to three years. In the case of professional business, the goodwill frequently resides in individuals, but there may be, in the case of a partnership, a well established organisation which will carry the goodwill with it, for the benefit of incoming or continuing partners. In the case of a sole owner of a professional business the goodwill is almost entirely personal; it nevertheless may be of value if the organisation and records are handed over, proper introductions effected, and the vendor agrees to a restraint on his activities.

In the case of small retail businesses the goodwill value is based as a rule on the turnover, and it is usual to negotiate for a price including fixtures and fittings, the stock being taken separately at a valuation. The principle factors in determining the price are:—

(1) The weekly turnover;

(2) The tenure of the premises;

(3) The rent.

It is usual to give a warranty that the weekly takings have over a period averaged a certain figure. If there is no security of tenure the goodwill is bound to be negligible, since the purchaser of the business can be deprived thereof if his tenure can be determined.

Lord Eldon's definition of goodwill is very apt in relation to a retail shop, for the retail shop depends to a very large extent on the fact of the old customers resorting to the old place. The volume of trade depends very largely on the position of the premises, and in this connection one street is better than another, and even one side of the road will often attract more business than the other.

It must not be forgotten with regard to the retail shop that there may be an occupation value in the rent; that is to say, the person buying the business is buying a house to live in as well as a shop to carry on his trade. Subject to these various points, the factors in determining the goodwill value of small retail businesses are really the same as those applicable in larger cases. The person buying the business will want to get a return over and above the ordinary interest rate for the capital laid out after assessing a reasonable remuneration for his labours.

Where the adjusted profits form the basis of goodwill value there is no precise guide as to the number of years' purchase to be taken. The negotiating purchaser—when the figure for goodwill is arrived at—considers the whole value of the business or share in comparison with the estimated profits which it is hoped will be maintained, and on which the goodwill is based. In other words, he sees whether the estimated yield on the capital to be found by him is satisfactory.

If a man has £10,000 and invests it in Government securities he can thereby be fairly certain of receiving an income of £500 per annum without risk, and without any effort on his part. If he invests this sum in a business he will run the ordinary risk of a trader, and presumably will work in the business. If his services are worth £500 a year, his £10,000 invested in business should produce roughly:—

(*a*) At least 7½ per cent. interest on capital, £750;

(*b*) His salary for his services, £500;

(*c*) A profit over and above these, being a return on the goodwill which he has purchased.

Assuming the average profits for the past three completed years amount to £1,750, and the average capital employed to be £10,000, then we get the following position:—

Average adjusted net profits		£1,750
Less—		
7½ per cent. on the average capital	£750	
Remuneration for proprietor's services	500	
		1,250
		£500
Average profit for goodwill at £500 on three years' purchase would amount to		£1,500

Assuming the net assets as shown by the last balance-sheet to be £8,530, the purchase price would be £10,000, upon which he would hope to obtain a return of £1,750, representing 7½ per cent. interest, remuneration for his services, and a super profit.

Where goodwill is the subject of purchase it may well be that an individual or company will only give a certain fixed price for it, or that the vendor will not sell below a certain figure. In these cases the price actually paid may not bear comparison with a value calculated on a precise formula.

Frequently also in partnership deeds the parties agree upon a price or method of determining a price which is to come into operation upon the death or retirement of one of the partners, and this again may have no relation to a scientifically calculated value.

In many cases where a scientific attempt at the valuation of goodwill would produce a zero figure a value may still attach, and a buyer might easily pay a premium for the acquisition of such a business. This is frequently the case in regard to professional businesses, where a qualified man wishes to avoid the labour and expense of building up a practice for himself; and even in the case of a commercial enterprise, an established connection, even though showing no super profit, may provide opportunities for different ideas or methods. In any such cases the premium is paid for the established organisation and connection.

The purchaser of a goodwill should take care not only that he has the goodwill conveyed to him, but that he obtains from the vendor a sufficient and proper covenant in respect of the vendor's future activities.

In *Trego* v. *Hunt* (1896) A. C., 25) Lord MacNaghten said:—"A man may not derogate from his own grant; the vendor is not at liberty to destroy or depreciate the thing which he has sold; there is an implied covenant on the sale of goodwill that the vendor does not solicit the custom which he has parted with; it would be a fraud on the contract to do so. These, it seems to me, are only different turns and glimpses of a proposition which I take to be elementary. It is not right to profit by and to purport to sell that which you do not mean the purchaser to have. It is not an honest thing to pocket the price and then to recapture the subject of sale, to take it away or call it back before the purchaser has had time to attach it to himself and make it his very own."

But if a proper contract is not entered into on this point, the vendor can trade in his own name and in the same line of business, and can even deal with the old customers if he does not solicit them. The vendor must not, of course, represent himself as carrying on his old business.

Where a purchaser is desirous of obtaining a shareholding in a private limited company, the goodwill of the company's business can be assessed in the manner already indicated, care being taken to see that proper charges are made for the services of the directors. It may be that the sellers of the shares will require more for them than the value of goodwill brought out by these calculations, and if a controlling interest is being purchased this factor alone will carry some value. It is not possible for an investigating accountant to assess this value. All he can do is to assess the value of the goodwill in the ordinary way, but it may not be unreasonable for the purchaser to allow a greater value, bearing in mind economies or expansions which he thinks he can effect when he gains control of the position. The accountant, however, should be careful to avoid any responsibility for an addition to the value of the goodwill in such a case.

The treatment of goodwill in relation to partnership calls for special attention. It must be remembered that in certain partnership businesses, particularly those of a professional nature, the goodwill is almost entirely personal, and if a partner retires or dies a considerable amount of the business may leave the firm, in which case the goodwill must of necessity be affected. Further, it is seldom considered desirable to maintain an asset of goodwill in the accounts of a firm.

If goodwill exists, it is an asset which forms part of the capital of the partners, and requires adjustment upon each occasion that a partner is introduced or a partner retires. From a practical point of view, therefore, any valuations of goodwill necessitated by the introduction or retirement of a partner should be recorded in the books on these occasions, but should either be written off immediately against the capitals or written off over a short period of years according to the wishes of the partners. When a partner retires, in ascertaining the basis of settlement, his capital should first be adjusted by reference to any valuations of the assets, and secondly by his share of the goodwill, and as this share will be acquired by the remaining partners, the goodwill so created should be divided between them and charged to their capital accounts as they share profits and losses.

Upon the introduction of a partner the effect on the accounts will depend entirely upon whether the incoming partner pays for the share of the goodwill acquired, and in that event whether the money so paid remains in the firm's business or is withdrawn by the original partners, or whether the incoming partner pays nothing for the goodwill, but by reason of the existence of such an asset the capitals of the original partners are adjusted.

If the incoming partner pays for the goodwill it is preferable to raise a goodwill account in the first place and credit the value of this asset to the old partners as they share profits and losses. The cash brought in by the incoming partner, whether as capital or in respect of goodwill, should be credited to his account. Then the goodwill should be written off against all the partners' accounts, according to their shares therein. If the cash paid for goodwill is to remain in the business no further entries are necessary, but if the cash so paid is withdrawn, *i.e.*, treated as a premium payable to the original partners, the cash withdrawn will be debited against their accounts according to their shares.

Goodwill, being a partnership asset, must be dealt with on dissolution as provided for by the partnership agreement. If there is no provision as to this it belongs to the partners rateably, and should be sold for the benefit of all of them. If it is not sold owing to the right of sale for the common benefit being waived or precluded, presumably every partner is entitled to carry on business in the firm name so long as he does not hold out his late partners as being still in partnership with himself, or expose them to liability for his

acts. It is obvious that such a contingency may create a difficult situation, and this serves to emphasise the necessity for the partnership agreement providing for the disposal of the goodwill.

The acquisition of goodwill may be regarded as the payment of a capital sum for future super-profits, the price being looked upon as the capital value of an annuity for a term of years, or, alternatively, the capital value of a diminishing income for a term of years, interest in each case being calculated at a commercial rate having regard to the nature of the business.

The sum paid for goodwill is, however, usually regarded as the consideration for acquiring the existing position of affairs; that is to say, the present admitted value of all those things which tend to make the business attractive, apart from the net tangible or realisable assets therein, and this appears to be the generally accepted view, and that to which the law would have regard.

In *Wilmer* v. *McNamara* (1895) 2 Ch., 245) it was definitely decided that there is no obligation on a company, having paid for goodwill, to write this asset down. If the amount so applied were in fact a capital sum for a future term annuity it clearly ought to be written down to extinction, which is not legally necessary or usual in commercial practice. If the goodwill of a limited company is depreciated out of profits it can subsequently be written up to the extent of such depreciation for the benefit of profit and loss account, if it can be shown to be worth the written up figure (*Stapley* v. *Read Bros., Limited* (L.J. reports, 93 Ch., 513).

In the case of retail businesses, where so much depends upon the premises, the capitalised term annuity does seem to be the real basis upon which the goodwill value should be fixed, because during the tenure of the premises the purchaser ought to get his money back.

The Companies (Consolidation) Act, 1908, requires any part of the purchase consideration which is for goodwill to be separately shown in the prospectus, but any applicant for shares has to form his own judgment as to the value of the whole concern in respect of which the prospectus is issued. The usual method employed where an existing business is the subject matter of a public issue, is for a certificate of the past profits (adjusted as stated in the certificate) to be given. The certificate will be limited to past results and indicate clearly what items of expenditure have been excluded in arriving at the certified profits. Such a certificate enables a prospective applicant for shares to judge for himself what yield he is likely to get on ordinary shares, or how far a limited percentage is likely to be realised on preference shares or debentures.

In these cases whatever calculations may have been made as to the value of goodwill, the negotiations between the vendors and the promoters is all done before the prospectus is issued, and the public have to decide for themselves on the information which is available in the prospectus whether or not an application for shares is worth while.

Discussion.

Mr. J. CHALK: In the case of a company keeping accounts on the double account system, which takes over the assets of another similar company, is it usual to show goodwill, purchased from the latter, in the capital account, or as a separate item?

A STUDENT: I should like the Lecturer's opinion regarding certain prospectuses we see advertised occasionally in the newspapers, where one company is buying up another. You see it stated in large print that nothing is being paid for goodwill, and on looking at the prospectus closely you see that the share capital of the purchasing company is made up of a number of preference shares, fewer ordinary shares, and a quantity of deferred shares of small value, and you find that the preferred shares and the ordinary shares are entitled to only a certain fixed percentage of the profits, and the remainder of the profits go the deferred shares. You find, too, from the prospectus that the vendors are taking the whole of those deferred shares in part payment. Do you consider, in such a case, that the purchasing company is paying too much for goodwill having regard to what I gather is your view?

Mr. SAUNDERS: I think I understood the first question to be, if goodwill should appear in the capital account under the double account system as a separate item. If you were to turn up the accounts of certain gas companies no doubt you would be able to see, supposing it is a local authority or a company under statutory powers acquiring a gas business already in existence, you would be able to see from that whether or not goodwill was treated as a separate item in the capital account. I have not come across such a case. As regards the second speaker, it is a very common practice nowadays to have what is known as the shilling share. There used to be a good deal of comment on the fact that goodwill appeared in the accounts of companies at a very large figure and the vendor took ordinary shares for it, and very often the goodwill was not worth that figure and possibly the vendors could sell those shares, unload them on to other people, and a certain amount of dissatisfaction was from time to time expressed. Any of you who have read Mr. Dicksee's work on the subject of goodwill will perhaps remember he suggested that shares issued for goodwill should be put on to an inner column of the balance-sheet, and the goodwill also should be put on to an inner column, so that the real accounting columns in the balance-sheet would not include goodwill, and would not be regarded as real capital of the company for shares issued against it. I think we have now turned a little to the other extreme in having shilling shares. The advantage of shilling shares is that it does not mean a very large capital, and the goodwill of the company itself is not inflated. The principal objection to the shilling or small share seems to be that the vendors or promoters are getting the goodwill without letting us know too much about it. I think, however, you will often find that where an issue of preference shares is made to the public, if these small valued deferred shares exist, the public who take up the preferred shares are invited to take up a certain number of the deferred shares. I think it is only where the vendors keep all the deferred shares themselves and have too many rights attaching to them that the public can complain.

Mr. B. J. ANDREWS: I think we have had a very interesting lecture, but there are just one or two points I should like to mention. Should the capital employed in a business always be taken into account in fixing the amount of goodwill? The next point is as regards soliciting. I do not know exactly what is covered by the term, but do you think—supposing I bought a business from you with the goodwill and an old customer of yours said that another old customer wanted to see you—if you went to see him would that constitute soliciting so far as you are concerned? You say goodwill should be written off as quickly as possible. Do you think there is any objection to spreading the writing off over the term of a lease—say £10 a year off a 20 years' lease, if the goodwill cost £200?

Mr. SAUNDERS: I think I must agree with you that it is not necessary in every case for interest on the capital employed to be deducted. After all, there is not a great deal of literature on this question of the valuation of goodwill, and such works as I have been able to consult in the course of my experience do indicate that it is the common practice in certain cases not to trouble about the capital employed. Personally, if I were acting for a purchaser, I should always say, "If I can get so much on my money without any exertion or risk, I must take that into account when I am going to embark on a business enterprise." The second point you mentioned was about solicitation. Of course, I am not a lawyer, but I think what is intended by the term "solicitation" is the vendor actually going out of his way to get at his old customers or asking somebody else to do it for him. If an old customer solicits him, there may be circumstances under which he

would be perfectly entitled to do business with him. With regard to your third point, as to the writing down of goodwill—personally, I think we must have regard for the law so far as a company is concerned, but in every other case I would always recommend goodwill to be written down.

Mr. ANDREWS: With regard to allowing for remuneration before calculating profits for goodwill valuation—if a sole trader has never charged remuneration and a purchaser is coming in, to himself work in the business, do you think some remuneration should be allowed for from the net profit in these circumstances?

Mr. SAUNDERS: If you are estimating the value of goodwill, I think you should make the usual calculations such as an experienced accountant would make in any ordinary case. I have had to assess the value of a coffee house, and in doing so I did take into account that the man who was seeking compensation for compulsory dispossession, had charged no remuneration for himself, and, moreover, employed two fair daughters in the business and gave them no remuneration. (Laughter.) On the other hand, if you take the case of a small retail shop and you are basing your opinion as to the value on the turnover, then you may form a conclusion without taking into consideration the question of remuneration. The real object of calculating—as the agents for buying and selling small businesses do—on the turnover is this: one man will say to himself, "I will run that business more profitably than the man who is there now." In a case of that kind, I think the remuneration can be neglected, but otherwise you must take it into account.

The CHAIRMAN: We have here to-night Mr. Spicer, Mr. Saunder's partner, and perhaps he will be kind enough to say a few words.

Mr. E. E. SPICER, F.C.A.: Twenty-five years ago I was under the impression that there was one subject upon which I could put my friend Mr. Saunders wise, and that subject was goodwill. I now realise, after listening to his lecture, that nothing is left. I feel sure you will agree with me when I say that we have listened to a very interesting and instructive lecture, and I am also sure you will agree with me when I say that the asset of goodwill is surrounded by a halo of paradox. It is usually valued most highly by persons who know nothing of its true worth, while those who are best fitted to estimate its true worth place upon it but very little cash value. Its true place, in my judgment, is in the shadow and not in the sun, and it should be felt rather than seen. I have recently returned from India, and, as most of you are probably aware, businesses over there are not run so much through directors as through managing agents, and I was called upon while there to express an opinion regarding the valuation of the goodwill of a firm of managing agents. Now, in such a case there are several factors which have to be considered very carefully, the first and most important being the terms upon which the agents were appointed; because, obviously, if the agency had only one year to run and the managing agents were not popular with a company it might well be that they would not be reappointed. It is therefore very necessary to look at the contract to see upon what terms the managing agents were appointed in order to gauge the security of tenure. I saw one case when I was in India—I believe it is very rare—where the managing agents were appointed under the Memorandum of Association. There are, of course, many instances where the appointment is under the Articles of Association. Then there is another important point—as to the right of transferring the agency. I came across a case where a private firm of managing agents was converted into a private limited company. There was a change of entity, and the contract with the company did not give the agents the right to transfer; consequently they had to negotiate in order that their existing rights might be assigned. Most of the agents, however, maintain the value of the goodwill attaching to their business by controlling a considerable percentage of the shares in the companies which they manage. If they do that, they need fear no man. Mr. Saunders started his lecture by saying that locality was a very important factor in considering the question of goodwill, and I think that is very evident in the case of a public house. It is the position of the public house, and not the quality of the beer. I believe the same beer will be sold in all sorts of public houses, but the goodwill varies in each case. It does not reside in the landlord, but the landlord's daughter may have something to do with maintaining or even creating it—(laughter)—but it is chiefly the locality that counts. It must be at the corner of a crowded thoroughfare, and one of the essential features is that it should have no steps to the front door. (Laughter.) Mr. Saunders stated that the goodwill of a newspaper could be based occasionally on seven years' purchase of the profits, and that it is not necessarily an exaggeration, although I would not wish it to be thought that I would value the goodwill of every newspaper on such a basis. A question was raised as to whether or not goodwill should be written down, and my friend Mr. Saunders suggested that in most cases he would advise such a course. In the case of a newspaper, however, you may have the goodwill standing at a figure of £200,000 or £300,000, and who would advise writing this off. A newspaper is usually either a gold mine or a white elephant. If it is a gold mine it is unnecessary to write off the goodwill since such a course would involve an accumulation of assets not required for the conduct of the business. The directors might, as the result of such a policy, be tempted to go into side issues and speculate with the money, or might thereby convert the newspaper company, which, after all, is a trading corporation, into a trust company, which was never intended. Therefore, if I were a shareholder I should object to the policy, because I should feel that the directors would be merely passing on to a future generation of shareholders profits which I ought to have, and which I could have had without damage to the business. Talking of goodwill reminds me of a little incident which occurred some years ago at an entertainment. It was Christmas time, and the platform was decorated with red bunting, and on the red bunting in white wool were arranged the words "Peace on earth, goodwill toward men." The harmony of the proceedings was upset at the very beginning by a lady who objected to that well known text, and who argued that it should read "Peace on earth, goodwill toward women." (Laughter.) The chairman, however, reminded the lady that if there was not goodwill toward women there would be no peace on earth. (Renewed laughter.)

Mr. G. G. NEAL: I would like to refer to two points mentioned by the Lecturer, and one is going back to the shilling deferred shares. Mr. Saunders stated that it rather had the effect of reducing the amount of capital and the amount paid for goodwill, but I fail to see that, because if a person is going to sell goodwill he does not mind what is the nominal value of the shares. He wants so much for the goodwill in shares and cash—perhaps all in shares—and he is going to have that value in pounds sterling whether the shares are nominally one shilling or one pound. Therefore, I should think the amount paid is just the same in either case. Secondly, I would like to suggest that in the case of a private trader selling his business and including an amount for goodwill, that goodwill really amounts to the salary which he would have got if he had remained in the business for the next three years, if it is based on the profits of the previous three years. Therefore, the man who buys that business should in fairness debit a portion of the amount for the salary of the person who has gone out of the business, and profits should only be distributed after that amount has been charged.

Mr. SAUNDERS: As regards your first point, you are looking at the real value and I was suggesting that the public do have some regard to nominal values. After all said and done, if you have a certain number of shilling shares compared with the same number of pound shares, the public will think it is a lot if they are pound shares and not so much if they are shilling shares. With regard to your second point, of course I am not concerned with how the purchaser keeps his books—I was not reading a paper on that subject—but it may well be that the man who is buying the goodwill of a small retail business may be one of those people who say "I want to earn a living and am not particular about a great deal of profit." It may be that he is paying for the opportunity of earning a reasonable income for himself, in which case his predecessor, presumably, did not make much in the way of profit; he made interest on his capital and his salary, and the new person is paying for that benefit. I think probably the suggestion you have in mind is right.

Mr. W. NORMAN BUBB, Incorporated Accountant: I should like to ask the Lecturer one question. He said that goodwill is always based on net profits, and with that, of course, we all agree; but is it not a fact that there are exceptions? I refer particularly to the medical profession. I am at the moment investigating the accounts of a doctor, on behalf of a client who is contemplating purchasing the practice for his son. The retiring doctor contends that the purchase price should be based on the gross receipts of each year and not the net profits. This is correct, is it not?

Mr. SAUNDERS: A professional business is very frequently sold on the basis of the gross returns, and invariably so in the case of a doctor's practice. The medical profession, in my judgment, is one of those cases where sometimes we cannot find a goodwill value, and yet people will buy the business. We have to remember that the medical profession is a very noble one, and that the majority of doctors do not get big incomes. They qualify at very great trouble and expense, and very often, when they buy a practice, they look at the turnover and say to themselves, "Probably if I run that business fairly successfully and do my best for the people I am going to look after, I shall make an income of so much." In that respect the medical profession is very much like the small shopkeeper, because you look at the turnover and decide what it is worth to you, and make up your mind what income you are likely to earn from it.

Mr. S. E. STRAKER: One suggestion is that one's client requires a return of, say, 10 per cent. The capital of the business is £3,000. The capital necessary to produce, on a 10 per cent. basis, the dividend which has been paid or the profits which have been earned—it has been earning £500—would be £5,000, so that the value of the goodwill on this basis would be £2,000. But it would seem that there is rather a snag in this, inasmuch as the capital in the business at the moment might be in excess of the capital shown in the balance-sheet by reason of the actual value of the assets. I gather that the Lecturer is inclined to disregard the present value of assets, but I submit that, if such a basis were adopted, it would be open to the vendor to subsequently re-value the whole of the assets, and thereby create something totally fictitious.

Mr. SAUNDERS: Dealing with your first point, I think everybody who buys a goodwill, before he does it, says to himself "What return am I going to get on my capital?" But I do not think an accountant ought to use that for the purpose of arriving at a goodwill value, because if you have one man who says he wants 10 per cent. on his money, and another who says he wants 12½ per cent., and the goodwill value is going to vary in accordance with the return which people require, I think you will get to a point that either there is only one true value, or there are two angles from which to look at the same truth. Personally, I think that an attempt should be made to assess the true value of the goodwill, quite apart from the return which you hope to get on the total capital invested. As regards your second point, I do not think I did in fact ignore the question of the other assets. Perhaps you are referring to the illustration I gave in which the average capital employed had been £10,000 but the capital at the date of the last balance-sheet was £8,500. If, however, as is often the case where a business is being purchased, the assets are going to be revalued, you must satisfy yourself that the revaluation is reasonable.

Mr. A. G. IRONS: Where the goodwill is based on a number of years' purchase, in those cases the idea is to look upon the return that a man will get on the capital he puts into the business when he buys it. Usually a man who buys a business buys it for himself, or in conjunction with one or two partners, and he will look on the question of the return that he will get on his money apart from the value of goodwill as shown by the capitalised super profits. When the business is floated into a company, then it is very often the case that the assets are revalued and the value is based on so many years' purchase.

Mr. SAUNDERS: I think everybody looks to see what return they are to get on their money; that is human nature. If two or three people are buying a business, they first want to be sure that there can be a reasonable rate of interest; they next want to see a reasonable rate of remuneration, and over and above that they want so much per cent. on their money if all goes well. I think that is equally the case where a company is formed and goes to the public. The promoters generally look to see what yield the public can reasonably expect on the money which they are asked to put up.

Mr. O. D. EZRA: There is just one point I would like to put to the Lecturer, and that is whether the value of goodwill will depend on the prevailing prosperity of the country as a whole. Perhaps a better return could be obtained from gilt-edged investments. What basis would you take to make the comparison of a return on capital?

Mr. SAUNDERS: I think in those cases, if goodwill passes, it is a question of a sale and a simultaneous purchase, and in most of those cases the people who are negotiating have regard to the times in which they live. Strictly, I think it would be more accurate to say that it would depend very much on the state of the particular trade. I can well imagine that ten years ago a man would cheerfully have paid a handsome sum to acquire a hairpin business, whereas to-day he would not look at it because of the state of that trade as it now exists.

The CHAIRMAN: Before we conclude I wish to make only one or two remarks. The first is that in dealing with goodwill, especially in a small business, it is very important to see that there are a substantial number of customers. A business which derives its profit from a few big customers is not so valuable as a business that derives a similar profit from a larger number of small customers, because in the former case there is always the risk of losing a big customer and thereby damaging the business very severely. A point was raised in the course of the discussion as to how the assets should be valued. The value of the assets depends largely on the income which they are capable of earning, and not on the intrinsic value of the assets themselves. You may take the two sides of a balance-sheet and see that the difference between the assets and liabilities is so much. That is what you are buying. But what is the value? The value, I think, depends on the earning power of those assets. If they do not earn any large percentage of profit they are not worth, as a going concern, any large amount of money; therefore, in arriving at the purchase price of a business you can hardly add to the value of the goodwill the value of those assets. They may be of some value, but the value will vary according to what the assets are producing in income, because, after all, the income is the deciding factor. Whatever line accountants may take in working out goodwill, it does eventually come down to what income will be produced on the capital invested taking the tangible assets and the goodwill together. For instance, take a limited company. It is always valued on the return it will make on the issued capital, and unless it produces a good return it will not appeal to the public. The return may vary in the minds of different people, but, after all, there is a recognised figure which people expect to get on their capital and that figure will vary according to the nature of the business. If it is speculative business you will want a higher return; if it is not speculative you will probably be satisfied with a smaller return. If it is a long-established business you will also probably expect a smaller return. As to the writing down of goodwill—of course, when a business is prosperous it it not easy to say that the goodwill should be written down; when it ceases to be prosperous it is impossible to write it down, because there is nothing to write it down with. I noticed a short time ago a case in which goodwill had been written down and then written up again for the purpose of extinguishing a loss and thereby enabling future profits to be distributed. I do not know that that is a very sound thing to do, but it is something which actually occurred.

On the motion of Mr. Davey, seconded by Mr. Menzies, Mr. Saunders was heartily thanked for his lecture, and a vote of thanks was also accorded the Chairman.

Birmingham and Midland Society of Incorporated Accountants.

(Wolverhampton Students' Section.)

A confirmatory meeting of the recently formed students' branch of the above Society was held at the Engineering and Scientific Club, Queen Street, Wolverhampton, on March 14th, and was well attended.

Among those present were Mr. E. T. Kerr, Mr. T. H. Platts, Lieut.-Colonel T. E. Lowe, Mr. D. E. Campbell, Mr. E. T. Brown, Mr. W. V. Vale, Mr. J. E. Jordan, Mr. W. A. Nelson, Mr. C. L. Lee, Mr. H. D. Davies, Miss L. S. Deacon, Miss N. B. Millner (Hon. Treasurer), Mr. B. Holmes-Walker (Hon. Secretary), and a number of articled pupils drawn from the immediate locality.

Mr. E. T. Brown was voted to the chair, and extended a welcome to Mr. E. T. Kerr (President) and Mr. T. H. Platts (Hon. Secretary) of the Birmingham and Midland Society.

It was resolved that the rules approved at the last meeting be adopted (subject to the confirmation of the Council in London), and that the subscriptions to the local section, as laid down in the last minutes, should be paid to the Hon. Treasurer.

Apologies were received from Mr. A. A. Garrett (Secretary of the Parent Society), Mr. J. R. W. Alexander (Parliamentary Secretary of the Society), Mr. E. Wilson and Mr. Aitchison. In letters expressing regret at their inability to attend, both Mr. Garrett and Mr. Alexander stated their appreciation of this new enterprise, and wished the movement success.

Mr. D. E. Campbell delivered a most helpful and interesting lecture, entitled "A few Notes on Auditing," touching on many points which, when the meeting was declared open for discussion, elicited some remarks and much useful information.

Mr. E. T. Kerr then expressed his pleasure at being present at the meeting, and assured those present that they might rely on the Birmingham Society doing all in its power to aid and encourage the local section. Particularly was he impressed with the proposal that a library be instituted, and for this purpose he generously made a donation of £5 5s., expressing as he did so a hope that works on book-keeping and accounts would be well represented.

Mr. T. H. Platts supported the President's remarks, assuring the meeting of the cordial support of the Birmingham Society, and emphasised the importance of members doing all in their power to keep the Society in the forefront of the profession. After referring to the new rooms recently obtained by the Birmingham Society, Mr. Platts kindly consented to be present and to take part in any "Ten Minutes Debates," &c., which the local section might be having in the future.

Mr. W. V. Vale wished the local section every success, and supported Mr. Platts' remarks relative to keeping the Society in the forefront of the profession, while Mr. W. A. Nelson promised the local Society his unqualified support, and Mr. C. L. Lee and Mr. J. E. Jordan took part in the discussion.

The Chairman referred to the interesting and educative address delivered by Mr. Campbell, and in connection with the formation of a library promised a subscription of £21 for the purpose of purchasing books, which movement he felt sure would be supported by his colleagues. He passed on to remark on the desirability of students becoming proficient in foreign languages, and mentioned French, German, Italian, Spanish, Portuguese and Dutch, and suggested that not more than two languages should be taken, preferably one, and that the student should be orally examined in both the Intermediate and Final examinations in one of the subjects embraced in the course, in the language chosen, to prove his proficiency in such language. He also stated as his opinion that some portion of the period of articles should be devoted to attendance at a university, somewhat on the lines of law and medicine. He impressed on them the importance of trying to be leaders in the profession which they were about to join.

The meeting terminated with a hearty vote of thanks to Mr. Kerr and Mr. Platts for their presence and interest shown in the concerns of this Branch; also to Mr. Campbell and to the Chairman.

INCORPORATED ACCOUNTANTS' GOLFING SOCIETY.

The annual general meeting of the Incorporated Accountants' Golfing Society, was held in the Council Chamber at 50, Gresham Street, E.C. 2, on Tuesday, March 27th, with the Captain, Mr. William McIntosh Whyte, F.S.A.A., in the Chair, supported by Mr. B. L. Clarke-Lens, Mr. A. R. King-Farlow, Mr. William Nicholson, Mr. W. H. Payne, Mr. A. A. Garrett, Mr. J. R. W. Alexander, and Mr. A. T. Keens, Honorary Secretary.

The accounts up to February 29th, 1928, were passed. Mr. William McIntosh Whyte was re-elected Captain, Mr. A. R. King-Farlow, Mr. Thomas Keens, Mr. Ewart Morgan, and Mr. G. S. Pitt were re-elected to the committee, and Mr. A. T. Keens and Mr. J. R. W. Alexander were elected Joint Honorary Secretaries.

It was resolved to hold a Spring meeting at Purley Downs Golf Club on Wednesday, May 2nd. Members desirous of taking part should notify the Joint Honorary Secretaries.

At a committee meeting which followed the annual general meeting the question of holding a further meeting in June next, and of a meeting during, or the day before, the Incorporated Accountants' Conference in Belfast in September next, was discussed.

Applications for membership and all communications should be addressed to the Joint Honorary Secretaries at the new address of the Society, 50, Gresham Street, E.C.2.

At the election of Chairman of the Bedfordshire County Council Lord Ampthill received 33 votes and Mr. Thomas Keens, Incorporated Accountant, 32 votes. Lord Ampthill was declared elected.

The Directors of Harrods Limited have appointed Mr. Robert Ashworth, F.C.A., F.S.A.A., as Chief Accountant in place of Mr. Allan Hepworth, who resigned that position on March 17th, but will continue to be a member of the Board.

"The real lovers, who are the only happy people in the world, leave calculation to be dealt with by the dull brains of accountants, who are so desirous of being accurate that they get into bed twice at night so as to be sure they have made a double entry."—*Seymour Hicks.*

SIR JOSIAH STAMP IN GLASGOW.

On March 9th Sir Josiah Stamp, G.B.E., LL.D., D.Sc., was entertained to luncheon in Glasgow by the President, Council and members of the Scottish Branch of the Society of Incorporated Accountants and Auditors.

Mr. Robert T. Dunlop, F.S.A.A., a Vice-President of the Scottish Branch, presided over a large company, and was supported by the Right Hon. The Lord Provost of Glasgow (Sir David Mason, O.B.E.); Mr. Thomas Cameron (President of the Glasgow and West of Scotland Branch of the Chartered Institute of Secretaries and Secretary of the Glasgow Chamber of Commerce); Mr. Horace A. Gifford (Secretary, Glasgow Stock Exchange); Mr. James Buchanan, M.A. (Chairman of the Governors of the Glasgow and West of Scotland Commercial College); Mr. James Ledingham (Manager of the North of Scotland Bank, Limited, Glasgow); Mr. George F. Todd, C.A.; Mr. William Sharp, C.A.; and Mr. James Paterson (Secretary of the Branch).

Apologies for absence were intimated from the following amongst others: Mr. Thomas Keens, F.S.A.A. (President of the Society of Incorporated Accountants and Auditors); Sir James Martin; Sir Charles H. Wilson, M.P., LL.D.; Mr. C. Hewetson Nelson; Sir Donald MacAlister of Tarbert, Bart., K.C.B., LL.D. (Principal and Vice-Chancellor of Glasgow University); Sir John M. McLeod, Bart., C.A., LL.D.; Mr. D. Norman Sloan, C.A., B.L. (Glasgow); Mr. A. Millar Bannatyne (Dean of Faculty of Procurators, Glasgow); Mr. D. Cram (Chief Inspector of Taxes for Scotland); and Mr. A. A. Garrett (Secretary of the Society).

After luncheon the Chairman said he regretted that their honoured President, Mr. D. Hill Jack, was prevented from being with them, and he had been requested, as one of the Vice-Presidents of the Scottish Branch, to take the chair. The Council felt honoured in having Sir Josiah Stamp as their guest to-day. He was one of the six Honorary Members of the Society of Incorporated Accountants and Auditors, and has been Examiner in Economics and Statistics for a good many years. They also welcomed the Lord Provost, and other guests. It might interest the Lord Provost to know that one of the earliest members of the Scottish Institute of Accountants, now the Scottish Branch of the Society, was one of his predecessors in the Civic Chair. He referred to Sir James Watson Stewart, Bart., C.A.

The Scottish Institute was founded almost 50 years ago by a number of Scottish members of the English Institute of Chartered Accountants, which included the late Mr. Thomson McLintock, and other well known Glasgow accountants who were also members of the English Institute, and who aimed at the registration of the profession and the amalgamation of the various Chartered Societies in Scotland. In this connection they observed with interest a suggestion in a recent Political Industrial Report advocating the amalgamation of the Chartered Institute and their Society. "It is unnecessary for me," continued Mr. Dunlop, "to introduce Sir Josiah Stamp to this company. He is well known to the commercial world and to the accountancy profession. Indeed, to the younger members of our Society he is looked upon in his capacity as an examiner with a certain degree of awe and fear, which I am sure is unwarranted. To the senior members of the Society our guest is known from his association with the Board of Inland Revenue, and I think I am correct in stating that he was responsible for that well known tax, viz, Excess Profits Duty, which proved such a source of trouble to the commercial world and a source of profit to the accountancy profession. (Laughter.) He had carried out important duties connected with the State and with commerce, and is an international authority on economics. We now know him as Chairman of the London, Midland and Scottish Railway Company, and as being associated with other large industrial concerns. We hope that his efforts to improve the relations of employers and employed will be entirely successful. He, no doubt, has his worries, as we all have, and we shall be glad if this gathering has been a break in Sir Josiah's strenuous duties. Although this luncheon is quite informal, I am sure we shall be very pleased to have a few words from Sir Josiah." (Applause.)

Sir Josiah Stamp, who was very heartily received, referred to the many speeches he had made, and some of the comments of his correspondents. One correspondent had asked if he was not rather over-doing it, and should take care of his health, while another—a shareholder in the London, Midland and Scottish Railway Company—suggested that the chairman, instead of making so many speeches, would be much better employed in finding out why the 4.5 train to Cardonald (a wayside station outside of Glasgow) had run late three days in a week. He therefore proposed not to make a speech, but to have a short informal talk with them.

Referring to the Chairman's statement about the profitable work thrown on the accountancy profession by the Excess Profits Duty, Sir Josiah humorously remarked that he had done more than make it a source of profit to the profession: he had kept the profession out of liability for it. After dealing with several other matters, Sir Josiah said that it gave him great pleasure to be present and meet the members of the Scottish Branch. He was the only layman who had been elected to Honorary Membership of the Society, and he valued that honour very highly indeed. When the Council of the Society asked him to introduce economics and statistics into their scheme of study, at first he had been obliged to report that the standard of work submitted in these subjects was somewhat disappointing, but the work done within the last few years had been surprisingly good. The Society had set before it a high standard, and it might be that in the near future it would have to fight for the maintenance of the position it had attained. With the larger outlook upon life in relation to social and commercial activities, knowledge of these subjects must be an advantage in raising their own professional status and in stimulating the intellectual power in the community. In thanking the President and members of the Scottish Branch for their kind hospitality Sir Josiah said his association with the Society had been a cherished feature in his life.

Mr. J. Stewart Seggie said that the Scottish Branch had been honoured by the presence of the Lord Provost and other representative gentlemen that day, and in a happy manner proposed the thanks of the Scottish Council for their attendance.

Sir David Mason, in reply, said he had accepted the invitation to meet Sir Josiah Stamp with great pleasure, and had listened to his remarks with much interest. He thanked Mr. Seggie for referring in such a kindly manner to the problems of the Glasgow Corporation, the members of which, in spite of criticism, were doing their best for the community. As regards the accountancy profession, he thought a business man was very foolish if he did not employ an accountant. If he was wise, all he had to do was to hand over his books to his accountant and save himself any further trouble. He was very happy to have been their guest, and if they asked him to come to another of these pleasant meetings, he would be very glad to attend if he possibly could do so.

Mr. James Ledingham said he had had the pleasure of meeting Mr. Keens, the President of the Society, last year, and he had

reported that meeting to the Executive of the Scottish Bankers' Association. It would give him equal pleasure to report to his Executive this very pleasant meeting with Sir Josiah Stamp.

Mr. Cameron (who apologised for the absence, through illness, of the President of the Glasgow Chamber of Commerce), Mr. Gifford and Mr. Buchanan also spoke. Mr. George F. Todd, C.A., expressed their thanks to Mr. Dunlop for presiding at so pleasant a function.

Reviews.

Cost Accounts: The Key to Economy in Manufacture. *Fifth Edition. Revised and Enlarged. By W. Strachan, Incorporated Accountant. London: Sweet and Maxwell, Limited, 3, Chancery Lane, W.C. (136 pp. Price 10s. net.)*

The author of this work has set himself the definite task of expounding the fundamental principles of costing. No attempt is made to deal with all the specialised branches of costing which call for individual and exhaustive treatment. The essentials are explained in a clear and concise manner and will be easily comprehensible by anyone who is acquainted with the ordinary principles of double entry. The method of treatment in relation to the constituents which make up the cost of an article or commodity, viz, material, labour and oncost, is dealt with so explicitly that no difficulty should be experienced in applying the principles to different classes of manufactures. In this edition a chapter is added on Standard Costing, a procedure by which a manufacturing cost which is calculated to be the lowest attainable under given conditions, is set up as a measure for testing the efficiency of the actual work of the factory. The value of standard costs has already been proved in many instances, notably the printing trade and the boot and shoe trade. Standard costs show the costs of the most efficient work at every part of an operation or process. When compared with the particular factory costs they may reveal isolated weaknesses which would otherwise escape detection, and which would make all the difference between profit and loss. The author rightly points out, however, that standard costs are not to be regarded as a substitute for the ordinary cost records but only as supplemental thereto, because essentially it is only by comparison with the actual costs that standard costs can provide any useful data. The work includes a complete set of forms and accounts illustrating the text of the book generally. The importance of these forms to the student lies in the fact that the entries can be traced through the forms as in actual practice, the proper references being given. Examiners have been known to complain that some candidates can write lengthy "essay" answers on costing and yet fail entirely at questions involving the actual keeping of costing records. The candidate who studies this book and works through the examples will have no difficulty in answering both classes of questions.

Executorship Accounts. *By Charles Townsend, Incorporated Accountant. London: Sir Isaac Pitman & Sons, Limited, Parker Street, Kingsway, W.C. (110 pp. Price 5s. net.)*

This is a book for students and is designed to meet the needs of those who have had no experience of specialised accounts. The book does not profess to deal with legal matters except so far as is necessary for understanding the principles which form the basis of the accounts. The examples of the different books of account with specimen entries will be found useful to the beginner, and the graded exercises at the end of the book, selected from the examination papers of accountancy bodies, provide a good means of testing the reader's knowledge. Apart from the actual book-keeping the author deals with the question of Apportionment, the Distribution of the Estate, Annuities and Residuary Account, &c.

The Principles of Auditing. *Fourth Edition. By F. R. M. de Paula, F.C.A. London: Sir Isaac Pitman and Sons, Limited, Parker Street, Kingsway, W.C. (228 pp. Price 7s. 6d. net.)*

In this edition the text has been partly re-written and generally brought up to date. Amongst the matters touched upon are the different classes of errors and their discovery, the detection of fraud, partial Audits, and the auditor's position with regard to methods of internal check; but perhaps the most useful part of the book is the explanation of the routine work of an audit, which is dealt with at some considerable length.

Factory Organisation. *By Clarence H. Northcott, M.A., Oliver Sheldon, B.A., J. W. Wardropper, B.Sc., B.Com., and L. Urwick, M.A. London: Sir Isaac Pitman and Sons, Limited, Parker Street, Kingsway, W.C. (252 pp. Price 7s. 6d. net.)*

The authors of this book are a group of men trained in variety of university schools who have taken up work in the same factory and are engaged in the management of some of its principal operations. The book commences with a consideration of the organisation of business control, which is followed by chapters on the relative importance of the different factors in production, the foreman's responsibility and influence upon the workers, industrial relations, piece rates, working conditions, marketing and advertising, &c. The work is well worthy of perusal by those concerned in the management and control of large business organisations.

The Federation Printers' Cost-finding System. *London: The Costing Committee, Federation of Master Printers, 7/10, Old Bailey, E.C. (56 pp. Price 10s. net.)*

The cost-finding system which is set forth in this book is approved by the Master Printers' Federation, which appointed a committee some years ago to inquire into the subject. The method of costing described in the book has, we believe, been largely adopted in the printing trade. It is supplemented by an appendix of forms with specimen entries showing how the costing is carried out, and is obviously the work of someone who is familiar with the printing trade and its operations.

Commercial Mathematics. *By L. H. L. Davies, B.A., and E. G. H. Habakkuk, M.Sc. London: Sir Isaac Pitman & Sons, Limited, Parker Street, Kingsway, W.C. (260 pp. Price 5s. net.)*

The object of the authors of this book is to show the application of the more advanced mathematical principles to commercial transactions. Amongst the subjects included are percentages, sinking funds and annuities, currency and exchange, calculation of profit on turnover, compound interest and reversions. There is also a chapter on logarithms with tables, and another on contracted methods of arriving at results.

The Law Relating to Bankruptcy in a Nutshell. *By Marston Garsia, B.A., Barrister-at-Law. London: Sweet & Maxwell, Limited, 2/3, Chancery Lane, W.C. (62 pp. Price 3s. 6d. net.)*

This little book, which deals not only with Bankruptcy but also with Deeds of Arrangement and Bills of Sale, is in the nature of a skeleton of the law on these subjects. It is useful for gathering a general view, but does not enter into detail. Commencing with Acts of Bankruptcy, the procedure is traced through the petition, the receiving order, the adjudication and the appointment of the Trustee, vesting of the bankrupt's property, disclaimers of onerous property, the powers and duties of the trustee and his release. There is also a chapter on crimes under the Bankruptcy Acts, and another on the discharge of the bankrupt. Deeds of Arrangement and Bills of Sale are very briefly touched upon.

Society of Incorporated Accountants and Auditors.

(Scottish Branch.)

ANNUAL MEETING.

The 48th annual meeting of the Scottish Institute of Accountants (the Scottish Branch of the Society) was held in Glasgow on the 9th ult. In the absence of the President (Mr. D. Hill Jack, J.P.) Dr. John Bell presided over a large attendance.

The SECRETARY read the notice calling the meeting, and thereafter the minutes of last annual and special meetings were confirmed.

Apologies for absence were intimated from Mr. D. Hill Jack, J.P. (Glasgow), Mr. A. Scott Finnie (Aberdeen), Mr. W. L. Pattullo (Dundee), Mr. J. C. Cessford (Edinburgh), and others.

There were also present: Mr. Robert T. Dunlop, Mr. J. Stewart Seggie, C.A., Mr. E. Mortimer Brodie, Mr. John A. Gough, Mr. W. Davidson Hall, Mr. William Houston, Mr. D. R. Matheson, M.A., LL.B., Mr. Donald M. Muir, Mr. Walter MacGregor, Mr. Archd. Macintyre, J.P., Mr. Jas. T. Morrison, Mr. Peter G. S. Ritchie, Mr. J. Cradock Walker, Mr. E. Hall Wight, Mr. W. J. Wood, Mr. Douglas S. Chisholm, Mr. Robert Fraser, Mr. John S. Gavin, Mr. John S. Gavin (Jun.), Mr. W. Hill Jack, Mr. P. C. McAuslan, Mr. R. MacMenemey, Mr. James H. MacDonald, Mr. James McMichael, Mr. J. Weir Neilson, Mr. P. Clarkson Ritchie, Mr. J. M. Roxburgh, Mr. James A. Scott, Mr. Alex. Wilson, and Mr. James Paterson, Secretary of the Branch.

In moving the adoption of the report and accounts, the CHAIRMAN referred to the severe losses the Scottish Branch had sustained in recent years by the death of old members. It was gratifying to note the considerable increase in apprentices, and he referred to the fact that again a Scottish candidate had taken First Certificate of Merit and Prize last year, and that another Scottish candidate had taken Second Place in the Intermediate examination, these examinations embracing candidates from all parts of the United Kingdom. An additional feature of the year's work was shown in the substantial increase in the entrance and examination fees paid by Scottish candidates through the Branch in 1927, which amounted to £263 8s. 6d., against £159 17s. 0d. in 1926, this being the largest in the history of the Branch. After referring to other matters in the report and accounts, Dr. Bell said that it was satisfactory to see that the membership of the Society was now over 5,000. It had a world wide organisation and claimed to have attained as high a standard of qualification as any other body of accountants in the country.

Mr. J. STEWART SEGGIE seconded, and after remarks by Mr. R. T. Dunlop, Mr. W. J. Wood, Mr. John S. Gavin, Mr. P. C. McAuslan, and others, the report and accounts were adopted. A resolution was passed relating to the restriction of the number of apprentices permitted to members in Scotland.

The following members of Council were re-elected:—Mr. John Bell, Mr. Robert T. Dunlop and Mr. John A. Gough (Glasgow), Mr. James T. Morrison (Coatbridge), Mr. Duncan R. Matheson (Edinburgh), and Mr. Donald M. Muir (Dunfermline).

The Auditors, Mr. D. M. A. Brunton and Mr. Robert Fraser, were also re-elected.

Report.

The Council have pleasure in presenting the 48th annual report of the Scottish Institute of Accountants (the Scottish Branch of the Society).

The Council regret to have to record the deaths since the last annual meeting of the following members:—Mr. Charles Samson (Kirriemuir), Mr. William Leslie Scott (Peterhead), and Mr. William Blair (Greenock), all of whom were early members of the Scottish Institute and members of the Society since 1899.

To fill the vacancies in the Vice-Presidentships, Mr. Robert T. Dunlop (Glasgow) and Mr. J. Stewart Seggie (Edinburgh) were elected by the Council.

A gratifying feature of the year has been the increasing number of clerks articled to members. City members are reminded that they can assist country apprentices who may wish to attend University and other professional classes by giving information as to likely vacancies on their staffs.

Twelve Scottish candidates passed the Final examination in 1927, one of whom, Mr. Eric Maxwell (Kirkcaldy), was awarded First Certificate of Merit and Prize at the May examination, and Mr. Thomas Butchart (Edinburgh) obtained Second Place Certificate in the Intermediate examination in November.

The Branch was favoured with a visit on June 16th last from the President of the Society (Mr. Thomas Keens) and the Parliamentary Secretary (Mr. J. R. W. Alexander, M.A., LL.B.). Intimation of this visit was made to all the members of the Society in Scotland, and a conference of members was followed by a luncheon, at which the President delivered an address on the progress, organisation and general work of the Society.

The scheme of organisation of Branch and District Societies to which the President referred is primarily for the purpose of improving the organisation of the District Societies in England and Wales, and for the purpose of bringing all members of the Society within the ambit of a Branch or a District Society, and has been extended to include the Scottish and Irish Branches.

In view of the extensive proposals for organisation in the interest of the members of the Society, the Council of the Scottish Branch has expressed agreement with the proposals.

The Council of the Society in London are giving careful consideration to proposals for a suitable building. The present office accommodation has been found quite insufficient to carry on the expanding work of the Society with comfort.

The Students' Society has continued its good work during the year, and a number of successful lectures have been held.

A number of new books and new editions have been added to the library. The Council have pleasure in recording a further gift of books from Mr. H. Wylie Auld, Incorporated Accountant (Glasgow), including eighteen volumes of the Accountants' Library. The Scottish Branch is much indebted to Mr. Wylie Auld for his gifts of books from time to time.

The Society is represented on the membership of the Glasgow Chamber of Commerce by Mr. Robert T. Dunlop and Mr. John A. Gough (Glasgow).

The attention of Scottish members is called to the Benevolent Fund of the Society and to the *Incorporated Accountants' Journal*, the official organ of the Society, both of which are commended to the interest of the members of the Society in Scotland.

The conference of Incorporated Accountants at Manchester was one of the most successful ever held.

Arrangements have been made for a conference of the Society to be held at Belfast on 26th-29th September, 1928.

It is hoped that a number of Scottish members will be able to arrange to attend.

The members of Council who retire by rotation at this time are:—Mr. John Bell, Mr. R. T. Dunlop and Mr. John A. Gough (Glasgow), and Mr. J. T. Morrison (Coatbridge), all of whom are eligible for re-election. The members will also be asked to confirm the co-option of Mr. D. R. Matheson, M.A., LL.B. (Edinburgh), in room of the late Mr. William Robertson (Edinburgh), and Mr. Donald M. Muir (Dunfermline), in room of the late Mr. Robert Young (Elgin).

The Honorary Auditors, Mr. D. M. A. Brunton and Mr. Robert Fraser, also retire, and are eligible for re-election.

Scottish Notes.

(FROM OUR CORRESPONDENT.)

Meeting of Scottish Council.

A meeting of the Council of the Scottish Branch was held on the 9th ult., Dr. John Bell (in the absence through indisposition of Mr. D. Hill Jack, President of the Branch) presided over a very full meeting. There were also present: Mr. Robert T. Dunlop, Mr. John A. Gough, Mr. W. Davidson Hall, Mr. William Houston, Mr. P. G. S. Ritchie, Mr. J. Cradock Walker and Mr. E. Hall Wight (Glasgow), Mr. Walter MacGregor, Mr. D. R. Matheson, M.A., LL.B., and Mr. J. Stewart Seggie, C.A. (Edinburgh), Mr. E. Mortimer Brodie (Port Glasgow), Mr. Donald M. Muir (Dunfermline), Mr. Archd. Macintyre, J.P. (Hamilton), Mr. Jas. T. Morrison (Coatbridge), Mr. William J. Wood (Perth), and Mr. James Paterson, Secretary of the Branch. Apologies for absence were intimated from Mr. D. Hill Jack, J.P. (Glasgow), Mr. A. Scott Finnie (Aberdeen) and Mr. W. L. Pattullo (Dundee). A number of applications for membership were variously dealt with, and several matters connected with the interests of the Society in Scotland discussed and action taken thereon.

Glasgow Students' Society.

The closing meeting of the session was held on the 7th ult., when Mr. William L. Weir, B.L., Glasgow, lectured on "Bills of Exchange." Mr. William Hill Jack, F.S.A.A., presided over a large attendance, and was supported by Mr. James Paterson, Secretary of the Scottish Branch, and Mr. Robert Fraser, Hon. Secretary of the Students' Society. Mr. Weir discussed at considerable length the various provisions of the Bills of Exchange Act and of the practice in Scotland, and at the close answered a number of questions on various points arising out of the lecture.

Mr. James A. Ross, F.S.A.A., Aberdeen.

We regret to record the death of Mr. James A. Ross, F.S.A.A., Aberdeen, which took place on February 23rd, at the age of 74. Mr. Ross held the position of treasurer to the Aberdeen Harbour Commissioners for the long period of 33 years, retiring from active duties in 1925. His services to the Corporation of Aberdeen and the Harbour Commissioners extended to almost half a century, and he was recognised as a most efficient and painstaking official.

Mr. Lawrence Scobie, F.S.A.A., Glasgow.

Mr. Scobie, senior partner of the firm of Messrs. J. Wright Robb & Scobie, Incorporated Accountants, Glasgow, died on the 6th ult., after a short illness, at the comparatively early age of 60 years. In an official capacity he was closely associated with Scottish art and artists, and held several important secretarial appointments. He was acting secretary and treasurer of the Royal Glasgow Institute of the Fine Arts, secretary of the Royal Scottish Society of Painters in Water Colours, acting secretary of the Glasgow Art Club, and secretary of the Scottish Artists' Benevolent Association. In the work of these offices Mr. Scobie came into close touch with practically all the leading artists in Scotland. Among them he had many close personal friends, and he was held in high esteem by all.

Civil Service Club.

A Civil Service Club has been constituted in Edinburgh. The Honorary President is the Right Hon. Sir John Gilmour, Bart., Secretary for Scotland, and the Chairman, Mr. J. Stewart Seggie, F.S.A.A. The Treasurer is Mr. H. A. Bakewell, A.S.A.A.

Notes on Legal Cases.

COMPANY LAW.

Dickson v. Halesowen Steel Company, Limited.

Notice of Meeting on Shareholder having no Registered Address.

A company which adopts Table A as its regulations is not bound to serve notice of a meeting on a shareholder who has no registered address within the United Kingdom.

(1928) W.N., 33.)

INSOLVENCY.

Simeons & Co. v. Sharles.

Sale of Goods by Bankrupt before Bankruptcy.

A bankrupt, before the date of the receiving order, had sold goods and handed over delivery orders to the purchasers upon payment made. The purchasers did not attempt to take delivery of the goods, which were in store, until after the date of the receiving order, and delivery was then refused upon the instructions of the bankrupt's agent, by whom the delivery orders had been signed, and in whose name and to whose order the goods were held in store. The trustee in bankruptcy claimed that the goods were in the possession, order, or disposition of the bankrupt at the date of the receiving order, and formed part of the bankrupt's estate.

It was held, on the facts, that the goods were not in the possession, order, or disposition of the bankrupt in such circumstances that he was the reputed owner thereof within the meaning of sect. 38 (*c*) of the Bankruptcy Act, 1914, and did not form part of the bankrupt's estate.

(K.B.; (1928) 44 T.L.R., 310.)

REVENUE.

Ormond Investment Company v. Betts.

Income Tax on Foreign Possessions.

The House of Lords allowed an appeal from the Court of Appeal (reported in *Incorporated Accountants' Journal*, December, 1927, p. 104) and held that No. 1 (2) of the Rules applicable to Cases I and II of Schedule D is not, by reason of No. 1 of the Rules applicable to Case V, made part of the directions for the computation of tax on income arising from shares in a place outside the United Kingdom.

(H.L.; (1928) L.J.N., 186.)

Ducker v. Rees Roturbo Development Syndicate.

Sale of Patents and Profits of Trade.

A syndicate formed to work and develop a group of English and foreign patents carried on business mainly by granting licences to manufacturers at royalties. Certain foreign manufacturers, however, refused to take licences unless they were also given an option of purchase exercisable within a given period. The syndicate entered into a contract with an American company to grant them a licence to use and work the syndicate's American patents, with an option of purchase. The company exercised its option of purchase and paid to the syndicate the sum of £15,898 for the purchase of the American patents out and out.

It was held by the House of Lords that the sale by the owners of patents of certain of their foreign rights may be a transaction which makes the sum received a trading receipt liable to assessment to income tax.

(H.L.; (1928) L.J.N., 142.)